Erste&Steiermärkische Bank d.d.

Annual Report for the year ended 31 December 2017

CONTENTS

Introduction

This Annual report, issued to the shareholders of the Bank, comprises the report of the President of the Management Board, Business results of Erste&Steiermärkische Bank d.d. and its subsidiaries, Non-financial Reporting, Corporate Governance Principles implementation statement, the audited financial statements together with an Independent auditor's report and supplementary reports for the Croatian National Bank (CNB). The audited financial statements are presented for the Group and the Bank.

Croatian and English language version

This document comprises the Annual Report of Erste&Steiermärkische Bank d.d. for the year ended 31 December 2017 stated in English. This report is also published in Croatian language.

Legal status

The annual financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as published by International Accounting Standards Board (IASB) and adopted in EU.

Abbreviations

In this Annual report, Erste&Steiermärkische Bank d.d. is referred to as the Bank, Erste Bank or EBC and Erste&Steiermärkische Bank d.d. together with its subsidiaries and associates are referred to collectively as the Group or EBC Group.

In this Annual report, ultimate parent of the Group, Erste Group Bank AG is referred as Erste Group.

Report of the President of the Management Board

To a large extent, the year 2017 saw the continuation of positive economic trends from the previous period, which is a reason for us to feel slightly optimistic. One positive contribution also came from the continued fiscal consolidation in Croatia, consequently leading to the closure of the Excessive Deficit Procedure and setting the stage for an open debate about the potential of joining the euro area. We witnessed some major challenges last year as well, like the process of restructuring in Agrokor that also had an impact on the operation of the banking sector.

Path to adoption of the euro as a positive strategic signal

During 2018, economic trends are expected to remain beneficial for growth and, hopefully, for maintaining the fiscal discipline. However, more effort is still needed to implement structural reforms with the aim of raising the potential growth rate, increasing resilience to potential global shocks and making sure that initial positive trends are put on a sustainable course. Furthermore, it is important to come up with both political and economic responses to demographic challenges and the growing trend of population outflow, so that those citizens who are willing and able receive an opportunity to realize their goals and ambitions in their native country, rather than in some foreign country.

Another positive signal that we received in 2017 came from a clear political message about the adoption of the euro being Croatia’s strategic goal. Although this will result in smaller banking incomes, we see the market’s long-term stability and reduction of the currency/exchange rate risk in the retail segment as the more important positive components of this strategic goal. Also, the reduced currency risk and open access to financial stability mechanisms in the euro area will increase financial stability in Croatia further.

No changing of rules while the game is on

Legal and political stability both remain one of the basic prerequisites for maintaining the process of recovery. In this regard, constructive discussions and even public criticism are certainly welcome, with banks actively engaging in dialogue. Moreover, it is necessary to build and nurture a secure investment environment for local and international investors alike, while steering clear of those legislative initiatives that may undermine this security by changing rules while the game is on and by introducing legal and financial risks. Banking is the bloodstream of every national economy and only a clean blood test can help it function more properly.

For some time already, we have been witnessing a gradual opening of the banking sector to other service providers, who are entering certain core business areas that had been exclusive to banks so far, particularly pertaining to payment transactions. This is only the beginning of a trend that will continue, but instead of taking it for a threat, we should see it as stimulus. In order to operate successfully against the challenges of digitization, banks will need to transform further into technological trendsetters, by making their products, advice and customer support available through digital channels.

Good and stable operation in 2017, EBC Group profit smaller due to higher provisioning

We maintained the quality and stability of our operating business throughout 2017 and that way we have solidified our position on Croatia’s banking and financial market. The Bank’s net profit was HRK 649.5 million, up by 3.67 percent compared to HRK 626.5 million from 2016. Net interest income was up by 4.72 percent, from HRK 1.6 billion in 2016 to HRK 1.7 billion in 2017. Net fees and commissions income increased by 8.43 percent, from HRK 410.2 million the year before to HRK 444.7 million in 2017.

Report of the President of the Management Board (continued)

The Bank's assets amounted to HRK 57.2 billion at the end of 2017, up by 1.94 percent to HRK 56.1 billion at 2016 year-end (YE). As of 31 December 2017, total loans stood at HRK 36.5 billion, up by 0.71 percent compared to HRK 36.3 billion at 2016 YE. Total deposits as of end of December 2017 amounted to HRK 42.3 billion and were up 2.44 percent compared to HRK 41.3 billion at 2016YE.

EBC Group's net profit after minority interest in 2017 amount to HRK 533.7 million. The most significant negative contribution to its decrease compared to 2016 (when it amounted to HRK 874.4 million) came from the increased risk provision that resulted from the situation in Agrokor and its associated companies. The Group net interest income remained stable and stood at HRK 2.07 billion, compared to HRK 2.06 billion from the year before. Net fee and commission income grew by 7.82 percent, from HRK 663.2 million in 2016 to HRK 715 million in 2017.

EBC Group's total assets amounted to HRK 65.9 billion at 2017 YE and were up by 0.49 percent compared to HRK 65.6 billion at 2016YE. Total loans as of 31 December 2017 amounted to HRK 43.3 billion, down by 0.82 percent compared to HRK 43.7 billion as of 31 December 2016. Total deposits of EBC Group's clients amounted to HRK 44.4 billion and were 2.42 percent higher compared to HRK 43.3 billion as of the year end 2016.

Non-financial operation – an important element of our success

Apart from financial data, it is my pleasure to present in this report some very important information relating to the non-financial aspect of our operation. Although we have always kept the public informed about our Corporate social responsibility (CSR) activities, we are glad to announce that our engagement has increased in this sense with the implementation of Directive 2014/95/EU in Croatia, which stipulates non-financial reporting. By acting as a socially responsible corporate citizen, we aim to support and encourage the development of different segments of society through a wide range of activities and projects that are intended to bring welfare to our clients and to the wider community in which we live and operate. Our actions in this segment went hand in hand with our dedication to maintain a transparent and open communication in relation to media, as our channel to the broadest of our public. These goals were clearly demonstrated in our Believe in Yourself promotional campaign, which aims to promote positive social and economic values, integration, inclusivity and the unity of all different individuals that make a society, regardless of their age, sex, ethnicity, religion or political affiliation, their gender identity or marital status.

Prosperity of Croatian society as a whole is our common goal

The positions of the Bank and the Group in the Croatian market remain stable and make a sound foundation for the future. We want our success to be sustainable and long-term, to result from the quality selection and financial backing of those projects that are sound and profitable, to be based on partnership relations that we maintain with our clients and other stakeholders in the social community and the produce stronger mutual trust based on open and transparent communication. Our common goals are success, satisfaction, and prosperity – of our clients and of society in Croatia as a whole.

Christoph Schoefboeck
Chairman of the Management Board

Management Board

CHRISTOPH SCHOEFBOECK, Chairman of the Board
Responsible for: Risk Management Division, Credit Risk Management Division, Collection and Work-out Division, Corporate Security Division, Human Resources Division, Legal Division, Compliance Division, Corporate Communication Office, Strategic Initiatives Office.

BORISLAV CENTNER, Member of the Board
Responsible for: Corporate Division, Large Corporate Clients Division, Corporates and markets Business Development and Support Division, Financial Markets Division

SLAĐANA JAGAR, Member of the Board
Responsible for: Accounting and Controlling Division, Asset and Liability Management Division, Internal Audit Division, Economic Research Office and, as of 1 March 2017, Group Tax Office.

MARTIN HORNIG, Member of the Board
Responsible for: Processing Division, IT and Organisation Division, Project Portfolio Management Office, IT Strategy, Architecture & Governance Office, Property and Cash Management Division.

ZDENKO MATAK, Member of the Board
Responsible for: Retail Division, Direct Channels Division, Marketing Division and Digital Transformation Team.

Business results of Erste&Steiermärkische Bank d.d. and its subsidiaries in 2017

I. Macroeconomic indicators

Following 2015 and 2016 as recovery years, Gross Domestic Products (GDP) growth remained on tracks also throughout 2017, though latest disappointing fourth quarter data resulted in 2017 at 2.8% level. When looking at the structure, domestic demand support remained in place, with private consumption maintaining a steady growth rate of 3.6% y/y on average in 2017, while investment activity also showed similar dynamics, despite weaker fourth quarter 2017 output weighing on average performance (3.5% y/y in 2017). On the other hand, net exports recorded negative contribution, as imports showed robust performance during 2017, which, in spite of exports also having strong growth pattern, resulted in overall negative net exports performance. Coming to the 2018 outlook, domestic demand is looking to remain overall positive factor, though with somewhat less supportive private consumption contribution amid no one-offs (tax reform) and a less supportive inflation trajectory. On the other hand, favorable exports outlook would be to some extent limited by the high tourism base from 2017 i.e. implying more moderate contribution to the headline GDP figure. Bottom line, our point forecasts at the moment stands at 2.8%, with risks being skewed on the downside.

Current account trends continued to improve, where we saw surplus figure increasing towards 4% of GDP region (on fourth quarter trailing basis) i.e. amounting to 3.8% of GDP in third quarter 2017. This was mainly result of Agrokor-triggered risk provisions, which had one-off positive impact on the current accounts (CA) performance (lower income outflows). Going forward we see normalization of CA performance and surplus moderating towards 2.5% of GDP region. Furthermore, external position should get additional support from declining foreign debt stock, mainly being a consequence of ongoing banking sector deleveraging.

Labor market conditions continued to improve, with unemployment rate trending on average 2.5 percentage point (pp) lower on annual basis during 2017 (registered unemployment), while employment levels also showed signs of recovery. Following strong reduction in average unemployment rate in 2016 (International Labor Organization (ILO) methodology), we expect even stronger performance in 2017, with average figure expected to land close to 11% level compared to 13.1% in 2016. Wage performance also kept favorable pattern, with both nominal and real wages showing somewhat intensified dynamics but still remaining in low-single digit region.

Inflation recovery momentum intensified throughout 2017, with headline figure moving in a tight band in the first half of 2017 around 1.5% region, amid electricity price hikes and an overall less supportive food profile. Average 2017 Consumer Price Index (CPI) landed at 1.1%, which makes it the first positive figure, following three deflationary years. We expect for normalization scenario to continue also in upcoming period, with modest inflation acceleration during 2018, but still remaining in a comfortable region (around 1.5%) to allow for an ongoing lax monetary policy stance.

2017 exchange rate developments were largely in line with expectations, as gradual appreciation trend was backed by improving macroeconomic factors, along with the usual seasonal factors. Hence, Croatian National Bank (CNB) has been mainly acting on the buy side of the spectrum further propping FX reserves and local currency liquidity. With local factors set to remain supportive, we see the exchange rate moving in the 7.30-7.55 band during 2018, with the intra-year pattern being mainly shaped by the traditional tourism-driven seasonality. Monetary policy wise, CNB kept focus on boasting high liquidity on the market and putting more focus on providing local currency (LCY) liquidity in longer tenors via structural REPO auctions. Additionally Government and CNB made first official step to kick-start the euro adoption process by adopting Euro strategy and highlighting EMU membership as mid-term policy goal.

I. Macroeconomic indicators (continued)

Following strong consolidation efforts in 2015 and 2016 (4.5 pp of GDP in total with budget gap shrinking to -0.9% of GDP), 2018 should deliver additional consolidation effort and likely balance fiscal position. Ongoing fiscal diligence continued to support public debt trajectory as public debt slipped below 80% of GDP. Efforts were already recognized by the rating agencies early in 2018, with Fitch being first in line to revise Croatia's rating to BB+, with stable outlook, thus making it first rating upgrade since 2004. Stabilized growth profile, improving external position and outperforming fiscal developments were being marked as key factors behind the upgrade. Following improving outlooks in 2017, one notch upgrade from rating agencies is part of our baseline scenario, hence we see Croatia remaining good candidate to receive more rating upgrade from other agencies in 2018.

	2011	2012	2013	2014	2015	2016	2017(f)[1]
Nominal GDP (HRK, billion)	333.3	330.9	331.4	331.3	339.0	349.4	363.9
Nominal GDP (EUR, billion)	44.9	44.0	43.8	43.4	44.5	46.4	48.8
GDP per capita (in thousand EUR)	10.4	10.2	10.2	10.1	10.4	10.8	11.3
Real GDP (growth y/y, %)	(0.3)	(2.2)	(0.6)	(0.1)	2.3	3.2	2.8
CPI (y/y, average %)	2.3	3.4	2.2	(0.2)	(0.5)	(1.1)	1.1
Current account balance (EUR, billion)	(0.3)	0.0	0.4	0.9	2.1	1.2	2.0
Current account balance (% of GDP)	(0.7)	0.0	1.0	2.0	4.7	2.5	4.2
Foreign debt (EUR, billion)	46.4	45.3	45.8	46.4	45.4	41.7	39.6
Foreign debt to GDP (%)	103.5	102.9	104.7	106.9	101.9	89.8	81.2
Loc. Curr./EUR year-end	7.53	7.55	7.64	7.70	7.64	7.55	7.51
Loc. Curr./EUR average	7.43	7.52	7.57	7.63	7.61	7.53	7.46
Unemployment (%, ILO definition)	13.5	15.9	17.3	17.3	16.3	13.1	11.3

[1] forecast

Source: CBS, CNB, Erste&Steiermärkische Bank d.d.

II. Erste Bank's lending operations in 2017

Erste Banks's total loans on 31 December 2017 amounted to HRK 39.6 billion, which is a 0.6% increase compared to the end of 2016, when they amounted to HRK 39.4 billion. According to the CNB's statistics from the end of November 2017, the Bank's market share in total loans amounted to 14.95%, which is a 0.45 percentage point decrease compared to the end of 2016.

The long-standing fall in the retail loan market in the past year was stopped and a growth was recorded on the market level. It was most pronounced in the group of cash loans. Total portfolio of the Bank's retail loans to HRK 16.48 billion on 31 December 2017, which is an increase of HRK 596.30 million compared to the previous year, and it is primarily the result of the large growth in new loan disbursement in 2017. According to the data of 30 November 2017, the Bank's market share in retail loans was increased by 0.24 percentage points compared to the end of 2016 and amounted to 13.57%.

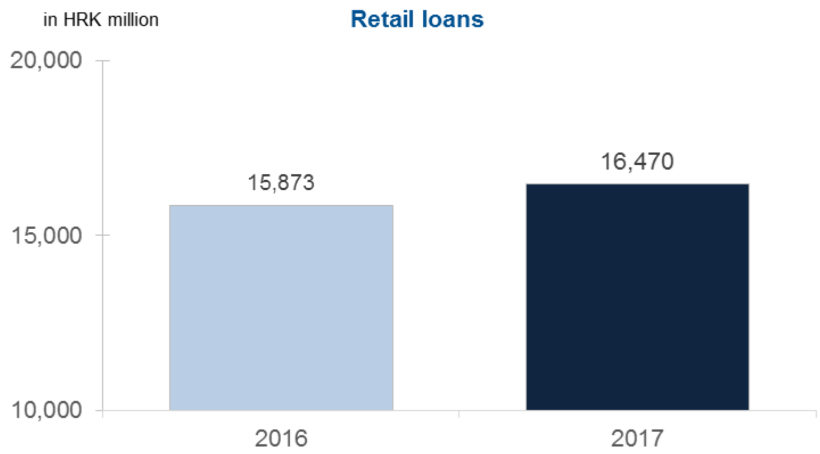

Chart 1: Retail Loans (Loans and advances to customers)

In 2017 Erste Bank kept its intense focus on SME division, as well as on the support of high quality projects that stimulate the development of real economy and increase of employment in that segment. Positive trends in the recovery of the investment cycle and macroeconomic indicators from 2016 continued in 2017. Tourism once again proved to be the most important sector in the economic recovery process, with a strong impact on other domestic sectors.

In the part of lending with corporate segment, the Bank recorded a slight decrease in the volume compared to the previous year, but manages to maintain and increase its market share. The reason for the decrease in loan exposure is in the decrease of loan portfolio in public sector segment, while the market share growth is partly due to the decrease in volume of total loans on the market due to sale of non-performing loans.

II. Erste Bank's lending operations in 2017 (continued)

Total gross loan portfolio of the corporate division on 31 December 2017 recorded a decrease of HRK 361 million and amounted to HRK 23.2 billion at the end of the year

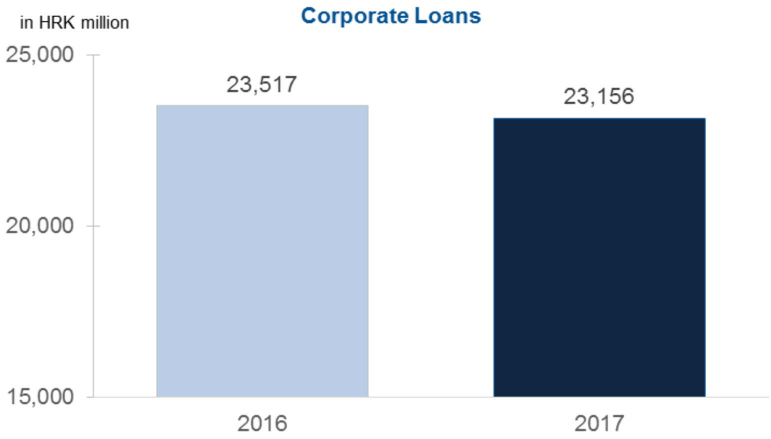

Chart 2: Corporate Loans (Loans and advances to customers)

Total market share in corporate loans decreased from 16.62% (31 December 2016) to 16.27% (30 November 2017).

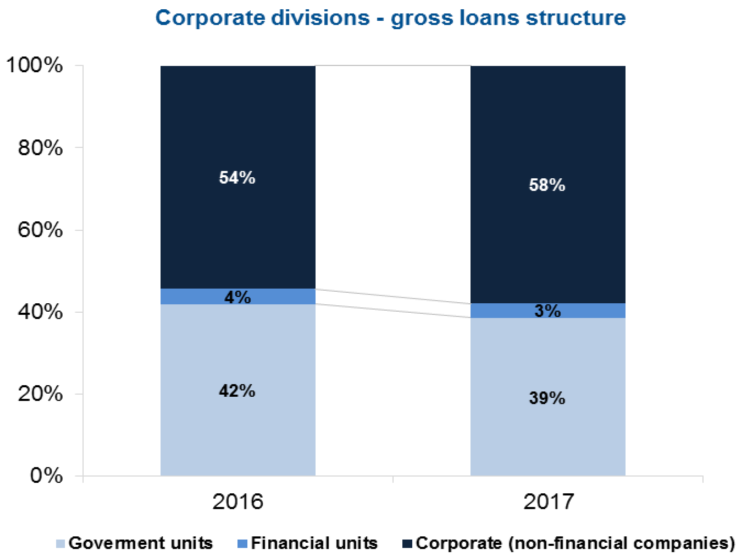

Chart 3: Corporate division – gross loans structure

III. Deposits in 2017

Total deposits at the end of 2017 amounted to HRK 42.3 billion, which is 2.4% increase than at the end of 2016, when they amounted to HRK 41.3 billion.

The retail deposit market continued its growth in 2017, despite the significant decrease of term deposits with the continuing trend of decreasing interest rates, while sight deposit market grew by double digit percentage.

Total retail deposits on 31 December 2017 amounted to HRK 27.86 billon and recorded a growth of HRK 164 million, with strong sight deposit growth. According to the data for 30 November 2017, retail deposit market share increased by 0.11 percentage points compared to the end of 2016 and amounts to 13.78%. This is the result of achieved growth bigger than the market growth.

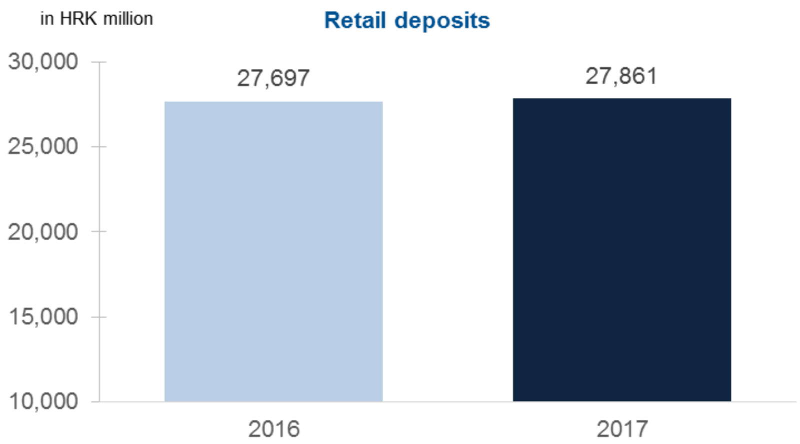

Chart 4: Retail Deposits

In the part of corporate deposits, there is still a trend of growth in volume of all deposit types, both on the market and in the Bank. In 2017, deposit volume growth in the Bank was faster than the market, which led to an increase in market share of all deposit types. Total corporate deposits on 31 December 2017 amounted to HRK 14.44 billion, recording an increase of 6.2% compared to 31 December 2016, when they amounted to HRK 13.60 billion. Sight deposits recorded an increase of 21.14% compared to the previous year, while term deposits fell by 2.42% compared to the end of 2016. The total market share of the Bank in corporate deposits recorded a growth from 11.63% (31 December 2016) to 12.53% (31 November 2017). The total deposit market in that segment grew by 9.64%, while the Bank's deposits grew by 18.17%.

III. Deposits in 2017 (continued)

When examining the client segments, the biggest growth of the market share in total deposits by far was recorded in the companies' segment, where the market share grew from 11.25% (31 December 2016) to 12.59% (31 November 2017). In this segment, the market recorded an increase of 9.47%, while the Bank grew by 23.73%.

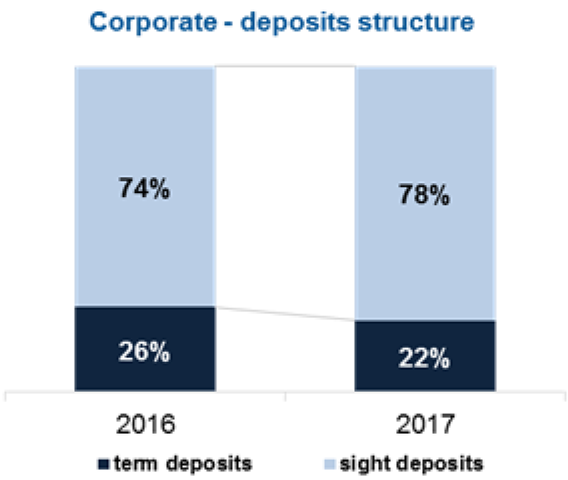

Chart 5: Deposit structure – corporate division

IV. Erste Bank's Retail and Corporate products in 2017

Retail

Product and service management activities during the past year were characterised by the adaptation to changes in the environment, as well as in customer expectations. In line with the strategic business determinants, activities focused on internal and external digitalisation of business continued during last year.

Thus, the online application for opening of current accounts was improved in 2017 by enabling the upload of ID cards within the application, which further shortened the process of contracting the current account. Also, the realisation of pre-approved loans was enabled on mobile banking platform (mBanking) in the middle of the year, which made this process even simpler for the clients with an even better user experience. In the part of deposit business, the convenience for savings contracted through e-banking services was introduced in the form of higher interest rates on Aktivna Štednja (Active Savings) compared to savings contracted at the branch office.

Several changes were also introduced in the housing loan segment, including simplification of product offer, correction of loan conditions, and the introduction of housing loans with combined interest rates. These are housing loans for which the interest rate is fixed for the first three years of repayment and a variable interest rate is applied in the remaining period. In addition, the Bank participated in the state-subsidised programme for financing the purchase of real estate, or house building, for which the Government of the Republic of Croatia approved subsidies of half of the instalments or annuities for the first 4 years of repayment. Through this programme, the Bank disbursed around 400 loans, in the amount of somewhat more than HRK 200 million.

With the entry of the Payment Account Directive into force in the middle of 2017, the Bank became obligated to allow clients to switch accounts and open a basic account, which is regulated in Croatian legislation by the Act on the Comparability of Fees Related to Payment Accounts, Payment Account Switching and Access to Basic Accounts. In accordance with that, clients are enabled to open basic accounts, while the sensitive client groups are enabled to open their basic accounts with a certain number of services they can use at no charge.

As part of the Step by Step social banking initiative, launched by Erste Group, three programmes are implemented in Croatia: Entrepreneurial Starter, Financial Parachute, and the programme for development and partnership with civil society organisations. The objective of the Entrepreneurship Starter programme is to encourage self-employment and entrepreneurship development by providing support on the way of shaping and realising business ideas. It includes free education, business tools, consulting and financing. A total of 331 applications were received in 2017, out of which 15 loan applications were realised, and 158 candidates were educated. The implementation of the programme of education of citizens in personal finance management, Financial Parachute, started during the year. Through group and individual workshops, 155 participants attended the programme during the year. In cooperation with the community of social entrepreneurs and the social entrepreneurial support institution ACT Group, and one of the world's leading microfinance funds, the European Fund for Southeast Europe, the Bank entered the Accelerator for Social Entrepreneurs project. The objective of this pre-acceleration and acceleration programme in the first year of implementation is to provide business support for the development and realisation of new projects by 15 social entrepreneurs and prepare them for further growth and future investments.

IV. Erste Bank's Retail and Corporate products in 2017 (continued)

Corporate entities

Along with competitive financing conditions and the constant improvement of product and service quality, activities in the corporate segment in 2017 were once again aimed at intensifying and increasing the quality of sales activities through the creation of individual and innovative solutions for targeted clients and industries. Among other things, clients were given access to more favourable financing conditions through long-term successful cooperation with domestic and international financial institutions.

Long-term successful business cooperation with the Croatian Bank for Reconstruction and Development (CBRD) was continued, and CBRD's programmes were some of the most demanded forms of lending in 2017, while the Bank was one of the most active banks when it comes to the use of regular CBRD's loan programmes. At the end of October, the Bank signed an agreement with CBRD on the implementation of the financial instrument ESIF Growth and Expansion Loans for small and medium-sized enterprises, and the approval of first loans is planned for the first quarter of 2018.

During 2017, funds from the credit line in cooperation with the European Bank for Reconstruction and Development (EBRD) were also available to clients. Along with the funds from the component for financing energy efficiency and renewable energy sources (WeBSEFF II), the component intended for long-term or short-term financing of micro, small, medium-sized and large enterprises was also available.

The long-term successful business cooperation with the European Investment Bank was also continued, and favourable financing sources that provide the financing of clients' needs at a more attractive price were fully utilised during the year.

Throughout 2017, active business cooperation with HAMAG BICRO was continued. This implies participation in HAMAG BICRO's guarantee programmes, which include various needs of craftsmen and entrepreneurs – small business entities when financing current operations or new projects and investments, providing them with a high quality security instrument in the form of a first-demand unconditional guarantee. Apart from that, after the Bank and HAMAG BICRO entered into an agreement, from the second quarter of 2017, operational implementation of the financial instrument of individual guarantees for small and medium-sized enterprises, funded by the European Structural and Investment Funds (ESIF), started.

During 2017, business cooperation with the European Investment Fund (EIF) regarding the implementation of the InnovFin guarantee instrument for micro, small and medium-sized enterprises (SMEs) and small mid-cap companies intensified. This is EIF's guarantee for the SME loan portfolio (InnovFin SME Guarantee Facility), which represents the initiative announced by the European Commission and the EIB Group, which has the financial support of the European Union through Horizon 2020 and of the European Fund for Strategic Investments (EFSI) established within the framework of the Investment Plan for Europe. The purpose of EFSI is to support the financing and implementation of production investments in the European Union and to ensure increased availability of financial resources. The purpose and basic advantage of EIF's InnovFin guarantee is the financing of innovative entrepreneurs with EIF's unconditional guarantee, with more favourable lending conditions for the client and ensuring competitiveness in the banking market, as well as reducing the risk of bad placements and losses due to uncollectibility.

IV. Erste Bank's Retail and Corporate products in 2017 (continued)

In line with modern banking trends and new regulations, and in order to increase customer service quality and the efficiency of financial transactions, activities in the product development and the services of financial asset management were intensified during 2017. The SEPA direct debit scheme was successfully implemented in accordance with the stipulated national deadline, until 5 June 2017. Timely informing and consulting of clients was also provided, as well as workshops and testing, so that the Bank and clients would successfully implement the standards of the new scheme. New functionalities of the web application were also implemented. Along with the online filling of forms for the opening of a transaction account, the application now also allows for separate filling of online forms for contracting additional services (NetBanking, mBanking, FonBanking, FonStart, MCBD, SMS, Erste Box, DNT). All forms are also implemented in their english version. Regular updating of the forms on the web application is done in accordance with the changes of the process and legal regulations.

Several initiatives and project activities were launched with the aim of improving the process of cash deposits. Additional functionalities of the Smart Safe service (foreign currency and exchange deposit) were developed, as well as the change of the manner of carrying out transactions (from sending files to a web service). At the same time, the process of exchange transactions was improved through the implementation of an active foreign currency exchange account, which enables the provision of a more quality and complete service for authorised exchange offices. In early 2017, the possibility of using the NetBanking service for non-resident clients was implemented, providing a comprehensive and competitive offer.

During 2017, activities focused on the improvement of the structured export and import financing products and services were intensified, as well as the activities of cooperation with specific financial institutions, with the aim of contracting and implementing instruments that provide clients with more favourable financing conditions and the Bank with the possibility to be as competitive as possible in the market, so as to maintain the leading position in providing complete financial and consulting solutions in foreign trade. In this context, along with the realisation of already contracted transactions, new possibilities of support to exporters in international markets are analysed, especially in the form of a loan to the supplier.

V. Direct Channels Division

Card business and mobile payments

Card business and mobile payment division increased the number of debit cards by 2.07% compared to last year, to 828,991. The total number of transactions in 2017 increased by 15.31%, while the total volume grew by 14.14%. A particular increase in the use of Erste Bank's debit cards has been recorded at POS devices, as the number of transactions and volume increased by 21.56% and 23.92% respectively. To boost the number of delivered debit cards and encourage their use to increase the number and volume of transactions at POS devices, 27 promotional activities have been organised. Compared to 2016, the number of cards delivered in 2017 increased by 1pp, while the activation of delivered cards increased by 3.76 pp.

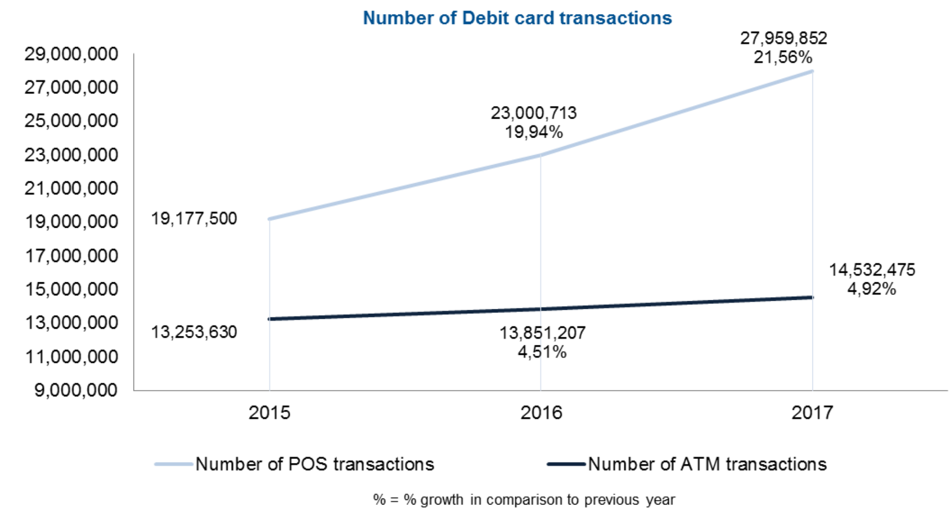

Chart 6: Number of debit card transactions

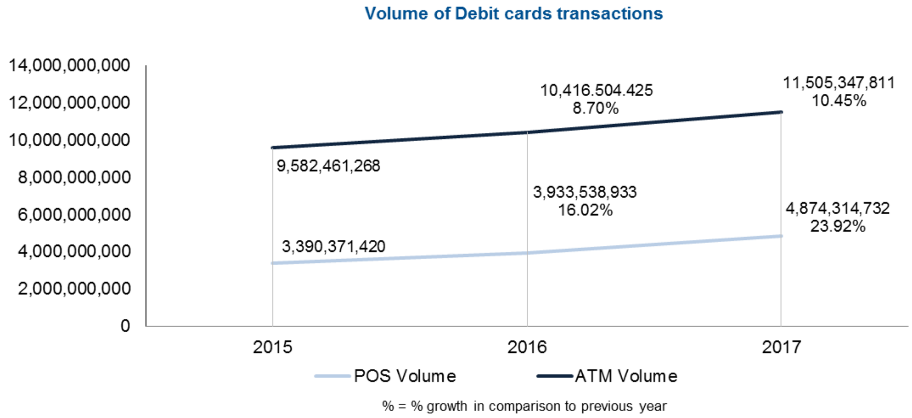

Chart 7: Volume of debit cards transactions

V. Direct Channels Division (continued)

Maestro Plus Service

This service allows cash withdrawal at ATMs with payment in instalments, as well as payment in instalments and/or deferred payment at ECC POS devices. As in 2016, the number of transactions at EFT POS devices continued to grow, while the use of the service at ATMs slightly decreased. The number of transactions at POS devices grew by 12.92% and the volume grew by 12.60%. Five marketing activities have been organised to boost Maestro Plus transactions, in which clients were encouraged to increase their activities at merchants' locations.

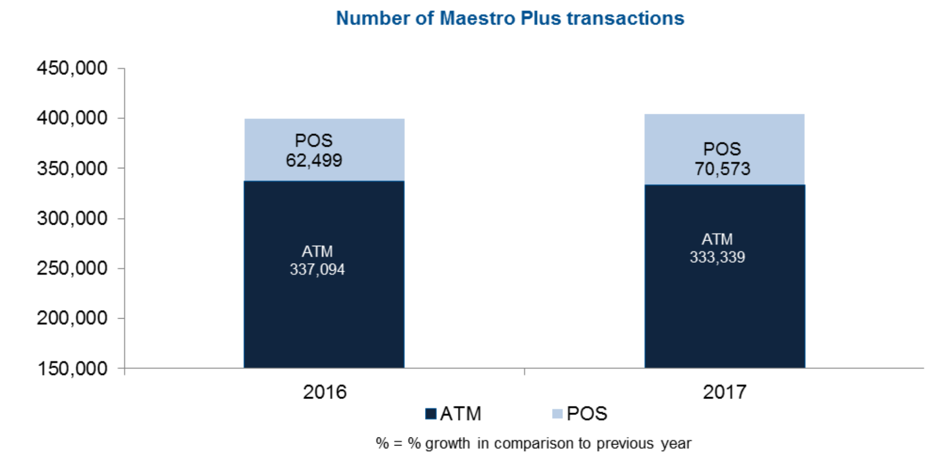

Chart 8: Number of Maestro Plus transactions

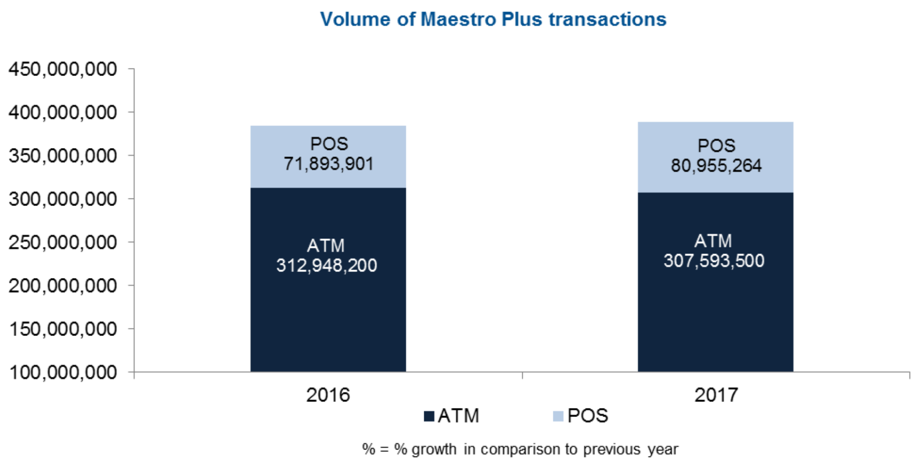

Chart 9: Volume of Maestro Plus transactions

V. Direct Channels Division (continued)

Cards acquiring and mobile payments management

By 31 December 2017, Erste Bank had a total of 705 ATMs installed, 10.5% more in comparison to the previous year. In 2017 the total volume of transactions increased by 8.16%, while the total number of transactions rose by 4.38%. Compared to 2016, the use of ATMs with deposit functions showed a considerable increase, as the number and volume of transactions grew by 29.06% and 24.20% respectively. By the end of 2017, there were 99 ATMs with deposit functions installed which is a 74% increase compared to 2016.

Dynamic Currency Conversion (DCC)

The DCC service at ATMs provides holders of foreign MasterCard/Maestro/Visa cards with accounts in GBP, SEK, CZK, PLN, HUF, and DKK with the information on the HRK exchange rate, with the exact amount of conversion to the local currency. Compared to previous year, the number and volume of transactions in 2017 increased by 3.14% and volume increased by 2.20%.

News and activities in 2017

Erste Bank was the first in Croatia and among the first in Europe to introduce the option of contactless cash withdrawal at ATMs. Presented in March 2017, the service is available to all holders of contactless cards. To withdraw cash, client needs to hold their card against the visibly marked contactless card reader and authorise the transaction with their PIN. The service is secure as the card never leaves the client’s hand, while the time for cash withdrawal is reduced to just a few seconds. By the end of 2017, there were a total of 288 contactless ATMs installed, which accounted for 7.52% of all cash withdrawal transactions. The first deposit/withdrawal ATM with a touch monitor was deployed in December. What makes this ATM special is the fact that customers can request all ATM services on a touch screen. At the same time, the ATM network has been modernised. A total of 239 ATMs has been installed or uninstalled, including 84 ATMs installed at new locations. In order to give it’s most vulnerable clients more flexibility to use their own funds, in August 2017 the Bank enabled the order of the Maestro card per client's request, linked to Special accounts for payments receipt and the funds withdrawal exempted from the enforcement - 358 accounts.

Digital banking

Retail business operations

In 2017, the Erste Bank again has an increase in the number of users of its Digital banking services. The biggest increase was recorded by Erste mBanking, which was used by 128,696 clients by the end of 2017, 31.10% more than the year before. While the Bank’s online banking service Erste NetBanking also saw a 1.18% increase in the number of users, the trend of users switching to Erste mBanking was obvious, as it provided them with almost all features as Erste NetBanking. The number of Erste SMS service users was also increased, by 6.47% versus 2016, with 227,608 users by the end of the year.

In order to prepare the direct debit database for SEPA, during the year 2017 the Bank closed the incorrectly opened direct debits and those debits that were not executed for 13 months or longer. As a result, the number of activated direct debit was down by 20.92% versus 2016, but this did not considerably impact the fee revenues.

Using Erste NetBanking, Erste mBanking, Erste kiosk, Erste NetPay and direct debit, retail clients executed 9.90 million transactions (+11.75% y/y) in the amount of HRK 9.7 billion (+20.38% y/y).

V. Direct Channels Division (continued)

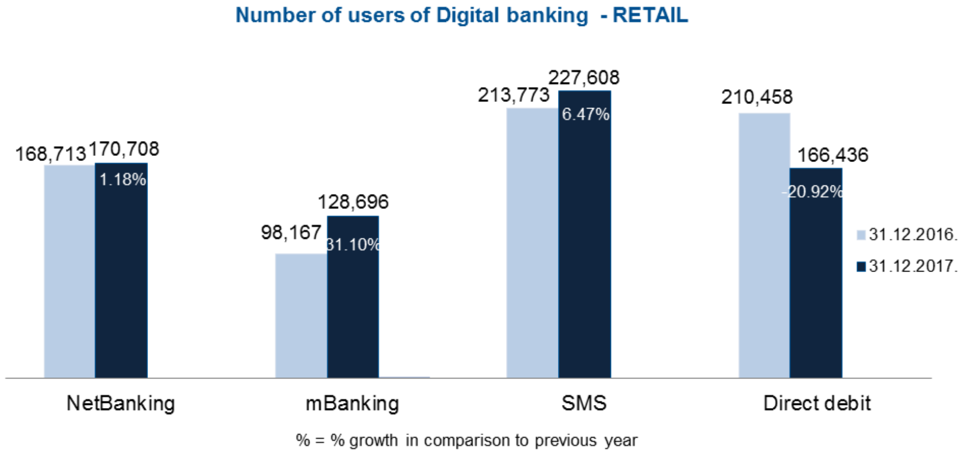

Chart 10: Number of digital banking users - Retail

Along with the previously enabled arranging of cash loans with a RDB limit (pre-approved loan limit) in Erste NetBanking, late in July this was also enabled in Erste mBanking. Through all the channels (branches, Erste NetBanking and Erste mBanking) a total of 20,345 cash loans (CLO and RDB) were arranged, including 7,646 or 38% through Digital channels. The total amount of cash loans with a RDB limit approved through all the Bank's channels (branches, Erste NetBanking and Erste mBanking) was HRK 695 million, including HRK 178.83 million or 26% through Digital channels. Erste mBanking accounted for the highest number of loans granted through Digital channels, 4,362.

Corporate business operations

The number of users of digital banking services intended for business clients continued to grow in 2017. The number of companies using Erste NetBanking was up by 9.45% y/y to 37,096, while the number of users in companies was up by 8.97% to 49,480. The number of companies using Erste mBanking (introduced in November 2016) was also on the rise, by 83.89% to 7,569, while the number of users was up by 86.12% to 8,126. Through Erste NetBanking, Erste mBanking and MultiCash services business clients executed HRK 20.1 million and FX transactions (11.05% y/y) worth HRK 187.3 billion (11.23% y/y).

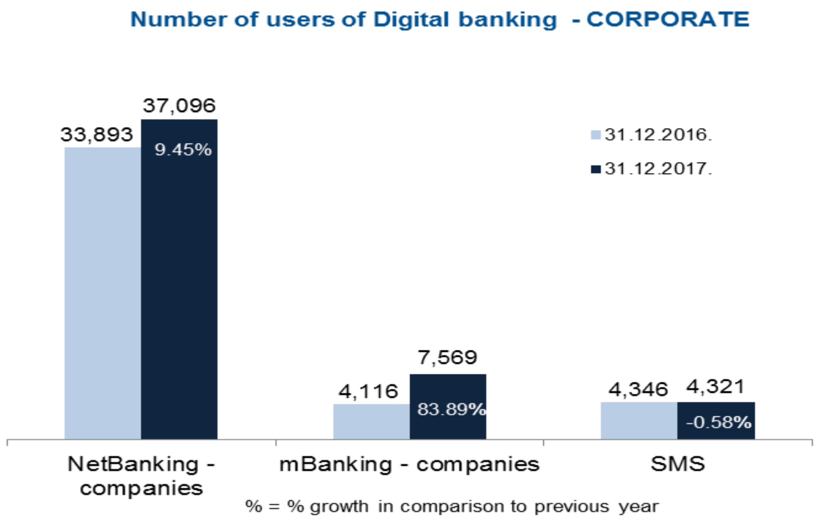

Chart 11: Number of users of Digital banking - Corporate

V. Direct Channels Division (continued)

Anti-fraud activities in Digital channels in 2017

During the year, tools for protection against attacks on digital channels were additionally optimised and the digital banking security team was regularly conducting security supervision over the Bank's channels in Croatia and Montenegro. So-called phishing attacks were identified on several occasions and were prevented by timely reactions. At the same time, cooperation with the Bank's other organisational units was additionally enhanced.

News and activities in 2017

2017 highlights:

- mBanking redesign – implementing the new functionality and upgrading the existing one, in line with the needs and good practice of mobile banking apps. In addition to the home screen redesign, new navigation was introduced, while orders for internal transfer and national payment were merged.
- Cash loan in mBanking – clients were allowed to arrange a loan without the need of going to a branch. After arranging the loan, the amount is instantly transferred to the client's current account (option visible to clients with pre-approved loans).
- mBanking messages for retail and business clients – option to display personalised information and promo offers. Messages may be sent to individual or to all clients, as well as specific target groups.
- Display of Diners Club cards in NetBanking – users can display card information, expenses and an overview and payment of monthly bills.
- Fingerprint and face scan log-in to mBanking – smartphone users may log-in by their fingerprints (Touch ID), while iPhone X users may also log-in by their face scan (Face ID).
- netBanking redesign for corporate clients through PoC agile development methodologies – Agile Team for digital banking development was formed with three tasks: create agile development methodologies pilot for faster response to users' requests; enhance existing digital banking services with a modern interface for NetBanking Corporate users; establish cooperation with BeeOne in order to provide for consistency between the future George system and new NetBanking for Corporate.
- George – new internet banking for retail clients developed in association with Erste Group and BeeONe.
- PSD2 (*Revised Payment Service Directive*) launched – the programme was launched due to EU's new payment transactions regulations and includes harmonisation projects and projects to seize new business opportunities brought upon by the regulatory changes. The following projects were analysed and prepared during the course of the year: PSD2 Payments (harmonisation with the PSD2 Directive and the new Payment Transactions Act (in force as of January 2018)); PSD2 API&Security (harmonisation with the PSD2 Directive (in force as of 2019)); Digital Identity (introducing cloud digital signature); ERP integration (feasibility study done in association with our colleagues from Czech Republic and Austria, as well as third-party partner EY); Data Analytics (as-is status analysis and recommendations for improvements in data analysis, as the basis for the future strategy).
- SEPA Direct Debit layout phase 1 in place – the new layout includes new payment recipients (as of June 2017.), existing recipients will be transferred to the new layout through four migration cycles.
- E-citizens log-in using mToken and Erste Display card.

V. Direct Channels Division (continued)

Client activation

Along with the acquisition and activation of digital service users, the focus in 2017 was also on training our employees. To activate clients, 67 campaigns (prize competitions, educational and activation/acquisition campaigns) were organised, the number of digital corners was increased by 16 (to a total of 42), 84 training workshops were held for the retail network, students and clients. In order to train and activate employees, we continued holding training meetings called Digital Coffee, while continuing to present quarterly awards for branches with the highest number of active digital service users. By the end of 2017, Erste Bank's digital channel services were used by a total of 250,300 retail and DMP clients, which is 11.64% more than in 2016. This included 160,007 or 63.9% active clients (at least one login to digital banking services per month), or 4.5% more. In the course of the year, the number of newly activated clients was increased by 44% compared to 2016, to 26,780. The number of mTokens issued was increased considerably. By the end of the year, the total number reached 143,888 on 109,495 clients (retail and DMP), which is 60.4% more than in 2016.

Contact Centre

The Contact Centre recorded 838,567 contacts in 2017, or 5% more than in 2016. Agents handled a total of 562,114 contacts, 11% more than the year before. Out of the total number, telephone calls accounted for 87%, while the remaining contacts were made by e-mail, chat (highest y/y growth 123%) and Facebook. The interactive voice response (IVR) recorded 276,453 entries, 6% fewer than the year before. The number of ErsteFon users was down by 6.2%, as clients turned towards other digital channels.

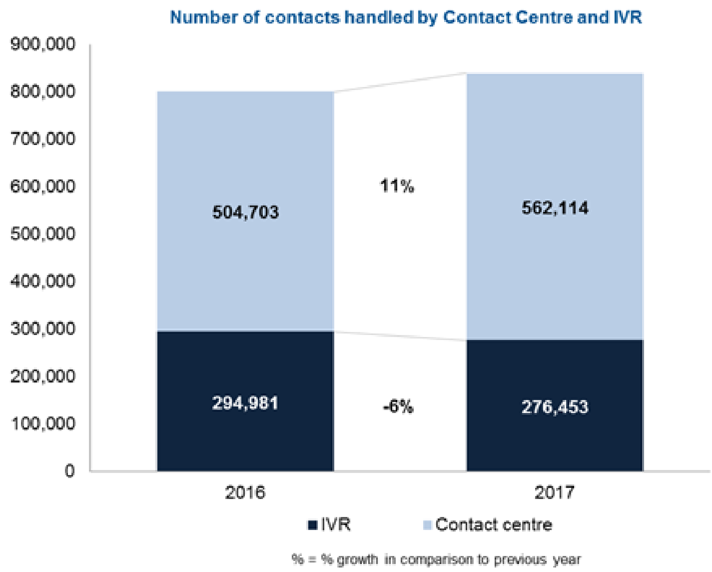

Chart 12: Number of contacts handled by Contact Centre and IVR

Contact Centre news and activities in 2017

Since the beginning of the year, a special Contact Centre team spent a half of its working hours on sales campaign calls, making calls to a large number of clients and achieving the campaign plan goals agreed with the Retail Sector. In the second half of the year, video call was presented as a new Contact Centre channel, while the chat channel was upgraded, so its supervision and management was improved and more clients started using it. We also introduced a possibility of ordering cards and PINs, thus speeding up the ordering process and reducing the number of visits to branches. At the same time, the number of clients with a personal advisor was increased to 5,000, and 8,000 contacts were made with them, 34% more than the year before.

V. Direct Channels Division (continued)

Sales at the Contact Centre

The same as in the previous year, the sale of current accounts, digital channels, credit cards and pre-approved loans was continued. A total of 2,967 accounts, 3,582 digital channels, 1,089 credit cards and 3,479 pre-approved loans were activated. Late in the year the Contact Centre also started calling clients about the pension funds sales campaign and clients who had not completed the process of arranging pre-approved loans in NetBanking. As part of the sales campaign support, the Contact Centre handled 89,000 clients (+42% y/y), while contact was established with 75% clients. Sales campaigns helped achieve the target sales result.

Contact Centre's quality of service in 2017

The quality of the Contact Centre service (percentage of calls answered within the set time) in 2017 was 74.85% within 30 seconds, which is in line with the set targets and industry standard. At 9.14%, abandoned calls were considerably reduced compared to 2016, thus confirming the service efficiency.

In 2017 we started monitoring the service quality index, as a weighted average of two indicators: Contact Centre quality assessment through mystery callers and the results of the customer experience survey. The service quality index showed an exceptional level (93.53%), with a satisfactory level of the Contact Centre service quality as confirmed by clients.

VI. Financial markets

Overview

The Bank continues to hold the position of the market leader in securities trading, with a market share of 30.6% and a market share of over 40% on the REPO market.

Money Market

The year 2017 could be described as the calmest and most stable year on the money market since the start of trading on the domestic market. Average daily excess liquidity in the system was HRK 15.1 billion, which is twice as much compared to 2016, while in December we reached the new highest liquidity level ever of HRK 23.4 billion.

The most traded maturities on the domestic interbank market where the overnights (O/N). The O/N ZIBOR rate fluctuated within the range of just 0.18%; it was highest at the start of the year when it amounted to 0.49%, and lowest at the end of the year, 0.31%.

In 2017, the Croatian National Bank held just one structural repo auction, offering HRK 530 million at a rate of 1.2% for a period of 5 years. Total amount offered by the CNB to domestic banks through structural repo auctions was HRK 1,265 billion at the end of 2017. Throughout the year, the CNB held reverse repo actions, but interest from domestic banks was low, so average funds allotted last year amounted to just HRK 30 million with a rate of 0.3% which remained unchanged over the course of the entire year.

Among the more significant, as well as expected events of last year was Federal Reserve District (FED) raising the reference rate three times during the year; the reference rate went from 0.75% at the start of the year to 1.5% at the end of the year.

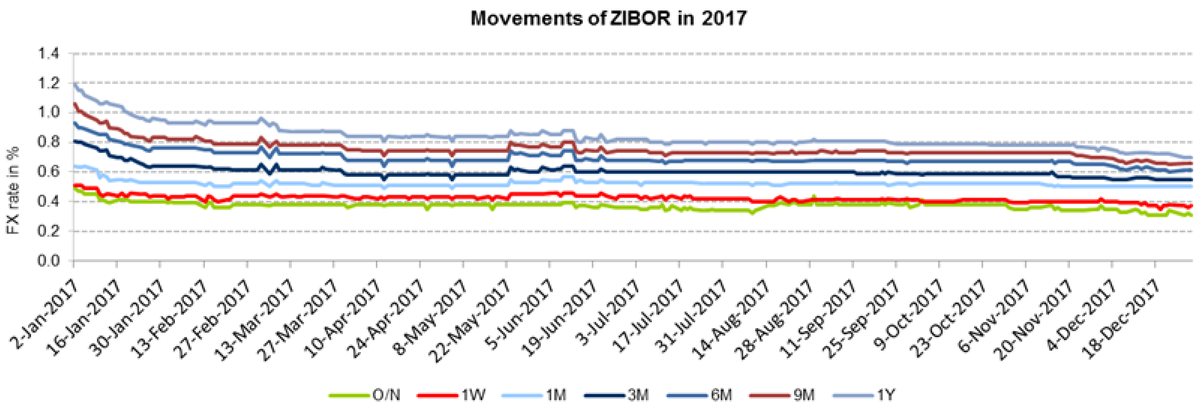

Chart 13: Movement of ZIBOR (source: Bank's internal data)

VI. Financial Markets (continued)

The largest treasury bills auction was held in November when EUR 1.5 billion was offered, the same amount as the maturing treasury bills, in 15-month treasury bills with the yield of 0.1%, which was 60 bp lower compared to the last auction of those treasury bills. When it comes to other treasury bills, the yield on the most wanted 364-day HRK treasury bills fell by 44 pp annually, amounting to 0.20% for the final issue of 2017. The yield on the 91-day HRK treasury bill fell by 20 pp to 0.20% compared to 2016, but the bills were only issued once, in January. The yield on the 181-day HRK treasury bills fell by 3 pp to 0.25%, but the bills were issued only twice in 2017, the last time in August. When it comes to foreign currency treasury bills, the yield on 91-day bills remained unchanged, while the yield on 364-day foreign currency treasury bills fell by 4 pp, amounting to 0.01% for the final issue of 2017.

The aggregated state debt was lowered by around HRK 160 million via treasury bill auctions last year.

Since liquidity in the system was substantially higher than in 2016 throughout the year, in general the demand for HRK on the market decreased compared to the previous year.

FX market

At the start of the year, the EUR/HRK exchange rate was around HRK 7.550 per one euro.

During January and February there was substantial interest among domestic institutional investors in forward selling in EUR/HRK maturing during summer months. In the mention period the euro weakened against kuna, with the exchange rate dropping from HRK 7.550 to HRK 7.460 per one euro.

The arrival of Easter usually marks the beginning of the tourist season, observed through increased inflow of foreign currency and depreciation pressures on the EUR/HRK exchange rate, which peaked in July and August. In the mention period the EUR/HRK exchange rate fell from HRK 7.4600 to HRK 7.4000 per one euro, with occasional mild corrections.

The maturities of forward transactions during summer months decreased the pressure on further strengthening of HRK against EUR. At the peak of the tourist season, the EUR/HRK exchange rate was around 7.4000. CNB was concern with a EUR/HRK exchange rate under 7.4000 which was reflected in this year's interventions. During the three summer months, CNB purchased a total of EUR 600 million.

Somewhat greater shifts occurred after the summer season, when the EUR/HRK exchange rate increased from 7.4000 to 7.5500 during three months, largely as a result of demand from domestic institutional investors, as well as CNB. At the end of the year, EUR/HRK exchange rate stood at the upper limit of the range at 7.5200.

During the year, the USD/HRK exchange rate ranged from 7.200 recorded in early January to 6.25 recorded in late September.

Debt securities market

Domestic capital market, both the stock and the debt markets, continues to fail to achieve its full potential, although a certain improvement compared to previous years has been noted. The activities of debt issuers via public offers are frequently limited to refinancing debt coming due, however there has been a trend of rising interest in new issues, i.e., financing on both the debt and equity markets.

VI. Financial Markets (continued)

Republic of Croatia has been more active on the domestic debt market compared to 2016, issuing 4 bonds with a total nominal amount of HRK 17.3 billion, mostly to repay domestic bonds coming due. The Bank participated as the leading arranger for said government bond issues in 2017.

The Bank issued 5-year uninsured EUR bonds in accordance with its strategy to diversify financing sources, simultaneously continuing to contribute to the development of the capital market in the Republic of Croatia. The key aspect of the transaction was the primary bond offer to physical investors, who accounted for 98% of total allocation, while during other bond issues the main focus was on institutional investors.

With the bond transactions it arranged, the Bank has continuously ranked among leading arrangers of debt securities in the Republic of Croatia with a 25.85% market share in Croatia in 2017, thus confirming its strategic commitment towards supporting the development of capital markets despite the still challenging, albeit improved, circumstances.

In addition to above mentioned transactions on the domestic capital market, the Bank also participated in the issuing of commercial securities of SC Višnjik d.o.o. as an independent arranger.

Equity market

The year 2017 began with an optimistic mood on the Zagreb Stock Exchange, with CROBEX at one point reaching levels it was at five years ago. Although negative circumstances slowed down the upward trend afterwards, the year nevertheless ended successfully when it comes to stock trading.

The turnover on the Zagreb Stock Exchange amounted to HRK 3.2 billion in 2017 and was 3% higher compared to 2016, while Crobex share index, which started the year at 1,996 points, ended with 1,849 points at the end of the year, having fallen 7.8% compared to 2016.

With a trade volume of HRK 336.4 million, Valamar Riviera d.d.'s shares were the most traded, while Atlantska plovidba d.d.'s shares recorded the highest price increase, growing by over 126%.

The most significant event of the past year was the collapse of AGROKOR concern and the uncertainty concerning the future of its daughter companies: LEDO, JAMNICA, BELJE, VUPIK, TISAK and ZVIJEZDA, which had accounted for a major part of the trading on the Zagreb Stock Exchange until then.

As expected, hotel companies reported the best financial results.

Custody

The market value of assets under custody in 2017 grew by 23.70% compared to 2016, amounting to HRK 9.87 billion as of 31 December 2017. The number of clients' financial instrument transactions shrunk by 40% compared to 2016.

VII. Risk management

Risk management is a set of procedures and methods established for identifying, measuring, assessing, controlling and monitoring of risks, including reporting of risks to which the credit institution is or might be exposed in its operations. The Bank is obliged to regularly measure and assess the risks identified in its business. Methods of measuring and assessing risk must include appropriate quantitative and/or qualitative measurement methods and risk assessment that will enable the observation of changes in Bank's risk profile, including the emergence of new risks.

The most significant risks that affect Bank’s business operations are credit, market, operational and liquidity risk.

Credit risk is the risk of potential loss due to a debtor’s non-payment of obligations towards the Bank, and it arises from the possibility that the Bank’s credit claims and related fees and interest will not be repaid in the foreseen amount and timeframe. The Bank identifies, measures, follows up on, controls, i.e. actively manages the credit risk as one of the most important risks and determines existence of appropriate capital level for covering of such risks. Risks related to credit risk are: currency induced credit risk, residual risk, sovereign risk, dilution risk and concentration risk.

Market risks represent the risk of loss in open position stemming from the change in the movements of the market prices, including changes in interest rates, exchange currencies and prices of securities. In this sense, market risk include: (i) interest rate risk, (ii) currency risk and (iii) equity investment risk.

Operational risk is a risk of unexpected direct or indirect loss occurring due to the functioning of the human factor, inadequate procedures and controls, technological oversights, accidents and external factors. It is also a legal risk representing the possibility of outflow of the Bank’s capital due to established fees or issued penalties and sanctions derived from a legislative, administrative or other proceeding on the basis of the failure to meet contractual or legal obligations, while contemporaneously excluding strategic and reputational risk.

Liquidity risk is a risk of loss stemming from an existing or expected inability of a credit institution to settle its monetary obligations upon maturity. Liquidity risk arises from maturity mismatch between assets and liabilities.

Except above mentioned risks the Bank manages and all other risk that could affect their business operations such as: systemic risk, regulatory risk, business environment risk etc.

VIII. Erste Bank AD Podgorica

In 2017, Erste Bank AD Podgorica (EBM) maintained the trend of successful operation, attracting new clients and developing relations with the existing ones, recording a pre-tax profit of EUR 8.83 million, which is 2% more compared to the year before. Profit after tax was EUR 7.9 million, ROE reached as high as 12.4%, while ROA was 1.7%. Total operating revenues amounted to EUR 23.9 million and were 5% up versus 2016.
Net interest income was up by 3% compared to the previous reporting period, to EUR 19.6 million. Net interest margin shrank from 5.79% at end of 2016 to 5.37% at the end of 2017.

Net fees and commissions income was increased by 15.30% to EUR 3.9 million. The growth in net fees and commissions income is in line with EBM's focus on increasing non-interest revenues, as well as an increase in the number of active clients and services it provides.

Provisioning expenses were EUR -74,000. Credit risk expense reached 0.03% and was higher than at 2016, when it stood at -0.3%. NPL coverage ratio was high at 112% at the end of 2017, up from 106% at the end of 2016. This was the result of the efforts invested in control of collection, as well as EBM's conservative risk appetite, adapted to the demanding market environment.

Operating expenses were increased by 6.4% compared to previous year to EUR 15.60 million, while the cost-to-income ratio was up from 64.4% to 65.2%. At the end of the year, the total assets amounted to EUR 491.66 million and were up by 9% versus 2016. Net loans to clients rose 20% compared to previous year to EUR 301.3 million; retail loans accounted for EUR 178.8 million, corporate loans for EUR 122.5 million.

In the retail sector, EUR 82.95 million was granted in 13,951 loans, which is EUR 6.5 million or 7.23% less than in 2016. Cash loans (68.53%) accounted for the highest share in total loans, followed by housing (21.17%) and mortgage and home improvement loans (3.18%). In line with EBM's strategy, clients remained focused on standard retail products, so core retail products accounted for 92.88% of all loans in 2017. The market share of the retail credit portfolio reached 16.47% and was up by 0.40pp compared to the year before.

In the corporate segment, gross credit portfolio was increased by EUR 27.14 million (26.3%) compared to the end of 2016. Net loans to private companies were up by EUR 25.7 million (37.9%), increasing the market share in this segment from 8.39% to 9.87%, with a 42.1% net market growth. The additionally improved portfolio quality was also maintained through NPL collection, which was improved from the already low 5.64% at the end of 2016 to 4.34% at the end of 2017.

As of 31 December 2017, Erste Bank AD Podgorica operated a network consisting of 17 branches across Montenegro, servicing more than 88 000 clients.

IX. Erste Card Club d.o.o.

Company's activities in general

Erste Card Club Group (consists of: Erste Card Club d.o.o. (hereinafter: ECC), Erste Card Slovenia d.o.o. (herinfafter: EC SLO) and Diners International Mak d.o.o.e.l. Skopje (DC MAK), all together hereinafter: ECC Group) achieved a simultaneous increase in the number of clients, transactions and credit cards (consolidated level). In Croatia, ECC recorded a significant increase in transactions on its EFT POS network, the continuation of its expansion and positioning on sales outlets. As part of the promotional activities, ECC has implemented time-limited actions to sell cards without subscription and membership fees and to promote the convenience of buying at sales outlets.

Over the course of the year ECC was focused on carrying out several projects. The process of migration to the new C 3.1 information system was completed with Visa and MasterCard migration, and at the same the work on the IFRS 9 project of the Erste Group was completed. In addition, it moved offices from the locations in Praška 5 and Teslina 13, Zagreb to Fran Folnegović 6, Zagreb.

In March 2017, ECC took over the ownership of Diners Club International Belgrade d.o.o. (hereinafter: DCIB), and Diners Club International Mak d.o.o.e.l. Skopje. Following the significant irregularities in operating that were subsequently identified, which relate to evasion of liabilities to creditors and erroneous representation of client accounts receivables, ECC initiated insolvency proceedings against DCIB and filed criminal charges against their former management. Consequently, in the market of the Republic of Serbia it is not possible for the Diners Club card to be accepted, while the same does not apply to the operation of DC MAK.

Operating overview of 2017

Credit cards

By the end of the year ECC issued a total of 365,174 credit cards (Diners Club 294,902, Visa 33,368, MasterCard 36,904), which is less than 1.39% compared to the same period in 2016. A reduced number of cards is the result of the termination of inactive cards, while the focus is put on the quality of portfolio and card activation. During the year, 33,279 new cards were sold, which is 15.1% less compared to 2016. The EC SLO had issued a total of 66,420 Diners Club cards by 31 December 2017, which is 5.8% more than in 2016, and the sale of new cards was increased by 8%, amounting to 7,623 cards. DC MAK had issued 15,355 Diners Club cards by the end of 2017, what is 4% more than in 2016 and the result of selling 3,183 new cards.

Card volumes in 2017

Total ECC issuing volume (the volume of transactions done through ECC's own EFT POS network and at POS owned by third parties) done by ECC's credit cards: Diners Club, Visa, MasterCard increased by 2.2% compared to 2016, amounting to HRK 6,903 million. Also, there was an increase in acquiring volume in the EFT POS network of ECC (acquiring volume: the volume of transactions done through ECC's own EFT POS network) by 16.5%.

In the acquiring part of the volume, there was a significant increase in Visa and MasterCard transactions volume by 32%, and as a result of positioning on the market, intensive activities of expanding their own EFT POS network, with a special focus on tourism, the expansion of Dynamic Currency Conversion (DCC) service and contracting of acquiring on the Internet. The total number of transactions made with ECC cards and on ECC EFT POS devices is 43 million, which points to an increase by 18.6% compared to 2016. By 31 December, ECC had a total of 18,850 EFT POS devices installed (market share of 17.1%; an increase by 1.65% compared to 2016)[1].

[1] HGK, last available data from 30/9/2017

IX. Erste Card Club d.o.o. (continued)

The total volume of EC SLO amounted to EUR 152 million and increased by 8.4%, while the number of transactions increased by 5.3% compared to last year and exceeded 2.1 million. The total card transactions volume of DC MAK amounted to EUR 27.3 million, which represents an increase by 1.0%, while the number of transactions exceeded 500,000 and increased by 0.6% compared to 2016.

Operating and financial review 2017

The net profit of the ECC Group amounted to HRK 81.5 million, which was 34.3% less than in 2016. The cause of the decrease was the adjustment of investment value (100%) in DCIB (-38.8 million HRK), DCIB loan (-56.2 million HRK) and (50%) adjustment of investment value in DC MAK (-7.3 million HRK), which is a total of -102 million HRK.

Operating result was realized at the level of HRK 165.7 million, with the decrease of 6.3% compared to last year, as a result of regulatory changes of decreasing interest rates (in force since August 2015) and effect on lower income from penalty interest, with a decline in the balance sheet of interest rates part of the credit card loan portfolio.

It is also a consequence of the simultaneous increase in interest-free installments and charge claims, one-time legal expenses and exchange rate differences for the DCIB loan. Since the introduction of the IF regulation (Interchange Fee), the level of average commissions is under constant pressure of traders. This primarily applies to the Visa and MasterCard operation, which is compensated for by the increase in acquiring turnover.

ECC conducted the sale of non-performing loans that amounted to HRK 74 million in total, which contributed to a decrease in the balance sheet of non-performing loans (NPL), together with efficient billing and stable entry of new NPL. The share of bad placements is lower in 2017 and amounts to 16.4%, in relation to 22.13% in 2016.

The net interest income of the ECC Group amounts to HRK 166 million (down by 3.9% compared to 2016). This is the result of the continuation of the enforcement of Croatia's interest rate reduction regulation, which affects the reduction of the amount of loan that is given to clients and the reduction of the turnover from default interest rates. The reduction of interest expense and excess liquidity management turnover were influenced by the repayment of a loan in the amount of EUR 15 million, deleveraging from 2016 and a reduction in the number of repurchase agreements.

As a result of ECC and EC SLO turnover growth, ECC Group’s net fee income amounts to HRK 239 million, what is 3.05% more than in 2016. This compensated for the trend of trading fees reduction and optimization on the expense side (royalty pooling, bill payment fee).

The ECC Group's provision for risk amounts to HRK 2.9 million and is lower by HRK 15.9 million compared to 2016, with a stable entry of new NPL and the improvement in the aging structure of bad debts as a result of the effective collection and sale of a part of NPL. Due to the sale and write-off of bad debts, NPL is falling since 2015 (2016: HRK 148 million, 2017: HRK 74 million). The coverage of bad placements with provisions in 2017 is stable and amounts to 103.4% (including a one-time effect of introducing One Client One Raiting 06/2017, with an additional allocation of an expense in the amount of HRK 8 million).

The net trading result (NTR) in 2017 amounts to HRK 0.7 million and is lower than in 2016, when it amounted to HRK 4.6 million. NTR is lower due to negative FX result that refers to a DCIB loan denominated in USD (effect -2.2 million HRK).

IX. Erste Card Club d.o.o. (continued)

General Administrative expenses of ECC Group amount to HRK 240.3 million, what is 3.3% more than in 2016. In December 2017, the consolidation of DC MAK began. If we look at the expense structure, the expenses of employees have decreased due to the termination of provisions for bonuses from previous years, together with a reduction of the bonus potential to 55%. As a result of the 100% adjustment of investment in the EC SLO concessions, the cost of depreciation is lower and other administrative costs are at lower level compared to 2016. All expenses are stable and one-legal legal expenses of the Vardar project and expenses of card renewal have been recorded.

Other operating results in 2017 amount to HRK -65.7 million and refer to the adjustment of the value of investment in DCIB (HRK -38.8 million) and to the adjustment of investment (50%) in DC MAK (-7.3 million HRK) and on provisions for DC MAK.

Balance sheet

ECC's total consolidated assets amounted to HRK 3,173 million on December 31, 2017, representing a decrease of 0.2% compared to 2016. Loans and receivables from clients and financial institutions amounted to HRK 2,913 billion, down by 3.2% compared to 2016, which is the result of write-offs and sales of ECC's bad debts in the amount of HRK 74 million and a decrease in revolving portfolios and interest rate portfolios. Adjustment of the value of receivables amounted to HRK 368 million, with a decrease of 19.02% compared to 2016 as a result of the collection, lower inflow of new provisions and write-offs and sales of bad debts. Liabilities to credit institutions on 31 December 2017 amounted to HRK 1,546 million, with a decrease of 10.8% compared to 2016, due to the Erste Group Bank AG loan repayment in the amount of EUR 15 million. Total capital amounted to HRK 891.5 million, with an increase of 8.5% compared to 2016 and a dividend in the amount of 10% of net profit of 2016 was paid.

INDICATORS	Actual 2016	Actual 2017	Index
RoE	15.95%	9.68%	61
RoA	3.74%	2.59%	69
Cost Income Ratio	56.82%	59.19%	104
NPL coverage	94.13%	103.38%	110

X. Erste Factoring d.o.o

Erste Factoring (EF) posted a negative result for 2017, primarily due to value adjustments in the first half of the year, as a result of business difficulties experienced by Agrokor and its related companies which substantially impacted the overall economy, the banking sector and the factoring market

Despite that, Erste Factoring remained the leader on the factoring market in 2017 as well. According to data from the Croatian Financial Services Supervisory Agency (HANFA), on 30 September 2017 Erste Factoring's share of total assets on the market was 57%, up from 43% in the previous year.

Loss after taxes amounted to HRK -371.1 million, while in 2016 the company posted HRK 80.4 million in profits. The loss is for the most part the result of above mentioned value adjustments, although the impairment of tax assets also had an impact. The operating result fell by HRK 69.7 million (-68.3%) compared to the previous year due to lower net interest income (HRK 113.8 million in 2016; HRK 46.3 million in 2017). The HRK 67.5 million lower net interest income (-59.3%) is the result of the interest income decline caused by the implementation of the Act on Extraordinary Administration Procedure for Companies of Systemic Importance for the Republic of Croatia. In addition, lower average interest margin (5.51% in 2016; 5.08% in 2017) also contributed to lower net interest income. Loan liabilities at the end of the year amounted to EUR 200 million.

Due to the developments concerning Agrokor, there has been a decline in the share and demand for factoring in the large clients and corporations segment. At the same time, there has been an increase in demand for factoring from SME clients, as well as an increase in turnover in this segment. The positioning of the SME segment as the dominant one was indeed Erste Factoring's key strategic goal in 2017, as well as in the following years in which the company will invest additional efforts to acquire clients in this segment. During 2017, particular attention was given to transitioning to the new accounting standard (IFRS 9), with databases and the core system being adjusted and harmonized with the new method of recording and reporting. One of medium-term strategic goals is digitalization of operations and transitioning to a new IT platform, as well as transferring the majority of permanent clients onto a revolving model, which will speed up and improve the overall service delivered to clients. Other important strategic goals include continued improvement of the product range by developing new products, as well as alignment with group projects (SPRING, Ricos Next Generation).

Due to the situation that Agrokor and its related companies found themselves in, which impacted the entire factoring market in Croatia, 2017 was a very challenging year for Erste Factoring. The majority of the year was marked by intense talks with Agrokor's suppliers, whose liabilities are based on right of recourse, with the aim of finding an optimal model that would allow the suppliers to continue operating in a sustainable manner. These talks had an exceptionally high success rate, benefiting all parties involved. Considering the fact that there is still a demand for factoring services on the market, Erste Factoring has set ambitious goals for upcoming years.

XI. Erste&Steiermärkische S-Leasing d.o.o.

In 2017, Erste&Steiermärkische S-Leasing d.o.o. (Erste Leasing) concluded 5,680 leasing contracts, 8.4% more compared to 2016.

The total value of newly concluded operating lease contracts stood at HRK 114.1 million as of 31 December 2017, which represents a 41.9% decline compared to the previous year. Total value of newly concluded financial lease contracts stood at HRK 1,033 million as of 31 December 2017, which is 10% more compared to 2016. Erste Leasing was ranked third on the market by value of newly concluded contracts with a market share of 15.99%. Erste Leasing's market share by value of assets remained the same as in 2016, at 12.7%.

Operating result stood at HRK 43.4 million in 2017 and was down by HRK 2 million (4.6%) compared to 2016. This was the result of lower operating lease financing, i.e., lower net rental income, including income from operating lease and depreciation of leasing assets, by HRK 5.7 million as well as the negative effect of net trading result. Operating lease share in the total portfolio has been declining continuously since 2012, falling by 3% in 2017 compared to the previous year, to 18%.

Net interest income amounted to HRK 55.2 million and was up by 30.4% compared to 2016, as a result of greater financing volume. Net trading result was HRK -6.36 million in 2017, down by HRK 8 million compared to 2016 as a result of negative exchange differences.

As of 31 December 2017, Erste Leasing's total assets stood at HRK 2,303 million, up by 5.84% compared to 2016. Loans and other receivables amounted to HRK 1,753 million, accounting for 76.1% of total assets, up by 12.4% compared to 2016 as a result of greater new financial lease volume.

In the next period, special attention will be given to expanding the client base and strengthening the position in financing leasing in all market segments, with continued improvement of the quality of services.

Non-financial reporting

The EU has regulated mandatory non-financial reporting for companies within the EU with Directive 2014/95/EU, which was implemented in the Croatian legislation in December 2016. Non-financial reporting leads to greater transparency and responsibility of all companies in the European Union. The legal requirement notwithstanding, the Bank had a prior tradition of informing the public about its activities in non-financial and corporate social responsibility segments in its Annual Reports.

The Bank supports and promotes the development of different segments of the society through non-financial reporting and corporate social responsibility by implementing a wide range of activities focused on benefits for its own clients, but also the broader community in which the Bank lives and works by supporting a number of humanitarian, educational, cultural and sports institutions across Croatia. The Bank always considers the specific regional characteristics and local needs of the society in the process.

The vision of the Bank's business is to be the best bank in Croatia that cares for the security of its clients and provides the best product and service quality while caring for the well-being of its employees, shareholders and the community. Our objective is to inform all interested parties about this vision and everything we do to bring it to life through non-financial reporting. Through the segments of corporate, social and environmental responsibility, we try to fulfil our mission and to support and encourage our clients, employers, shareholders and the community in generating profit together.

Our efforts in this segment are followed by our dedication to transparent and open communication with the media, as they are mediators between us and the general public. During the last year, these efforts were reflected in the advertising campaign Believe in yourself that aims to promote positive social and economic values, integration, inclusion and fellowship of all individuals in the society, regardless of age, gender, ethnicity, religious or political affiliation, sexual orientation or marital status.

I. Business responsibility

Anticorruption

We believe that we need and have to apply the highest ethical standards of the corporate management and individual behaviour of employees until we achieve our business vision, mission and goals. Within this framework, the Bank applies policies and guidelines that regulate the conflict of interest management, anticorruption and whistleblowing process, and which are in the jurisdiction of the Non-financial Risk Management Sector. The business of the Non-financial Risk Management Sector encompasses prevention of money-laundering, prevention of frauds and monitoring of the compliance with regulations in terms of the business on the capital market. Also, the Non-financial Risk Management Sector regularly identifies and assesses the risk of compliance in cooperation with other organizational units of the Bank.

The Bank’s code of conduct regulates the basic rules of the business behaviour of the Bank employees for the purpose of maintenance and further development of the reputation of the banking industry and the Bank in the society, promoting the idea of professionalism, responsibility and transparency of business.

Based on the anti-corruption policy, the Bank enters business relations solely on the basis of integrity and high ethical standards. The Bank’s employees are obliged to avoid any sorts of activities that could lead to or suggest that the bank will offer or receive a bribe. Under no circumstances does the bank offer any value to a civil servant (or a civil servant’s family member or any humanitarian organization suggested by a civil servant) for the purpose of influencing the receiver to take or not take certain official actions or for the purpose of stimulating a civil servant to make a deal with the Bank.

Furthermore, the policy of the conflict of interest management has established a general framework for the detection and management of potential conflicts of interest and supports the Bank’s employees in setting standards in their work in identified areas where a potential conflict of interest could occur. The policy encompasses general principles for an organizational conflict, performance of activities that are not job-related, general principles for receiving business gifts and principles related to conflict of interest in offering of investment services and activities. The Bank raises awareness and teaches employees how to recognize situations in which a conflict of interest could occur and about measures, principles and procedures that need to be carried out in a daily business with the goal to prevent and manage a conflict of interest.

I. Business responsibility (continued)

In its business the Bank applies the principle of zero tolerance for fraudulent actions at the expense of interest and/or the Bank's assets, corruption, violation of valid rules and regulations, acts of the bank and ethical principles. Whistleblowing policy established a process of reporting improper behaviour relating to financial illegalities, corruption, frauds and money-laundering, existence of a conflict of interest, actions against rules and procedures of the Bank, violation of valid regulations of the banking business and the process of control and solving of the mentioned reports, as well as the manner of conduct and provision of protection of whistle-blowers. For this purpose, the Bank raises the awareness of employees about the importance of reporting suspicious cases, violation of prescribed procedures and the bank's acts via a channel that offers anonymity through training.
When it comes to existing and new employees, regular indirect educational courses are carried out for the purpose of the management and prevention of the conflict of interest and ethical behaviour.

Based on the umbrella framework of the document management in entire Erste Group, the Bank sets key requirements for the implementation of policies in terms of the conflict of interest management, ethical behaviour, prevention of frauds, money-laundering and anti-corruption in its affiliated companies.

Tax transparency

The Bank has always been dedicated to tax compliance and to observance of and consistent implementation of tax regulations. As a socially responsible entrepreneur, the Bank considers it very important to pay all its dues for the public needs of the country it is operating in and to pay a fair tax amount, that is to say, the amount of tax we are under obligation to pay under the tax regulations. The Group's Tax Office in Croatia was established in March 2017 to aid in the performance of this task and make it even better.
The Office's tasks are to ensure tax compliance of Erste Bank and its affiliate companies in Croatia as a whole, coordinate the tax policies of the affiliate companies, and cooperate with the tax authorities. The Office was established for the purpose of better and more efficient tax risk management of the EBC Group in response to more comprehensive regulations resulting from Croatia's EU accession and the announced new tax regulations. In addition to tax compliance, the other important task of the Group Tax Office is to help colleagues from the Bank and its affiliate companies optimise the tax liabilities arising from their daily activities. The purpose of the Group Tax Office is to support the Bank's business lines and to incorporate the existing tax know-how and expertise into every segment of the Bank's operations. The Tax Office works closely with the other organisational units in the Bank.
The Bank's Tax Code, which regulates the Bank's position on tax issues and tax risk, was adopted and approved by the Management Board at the beginning of 2017. The document was published on the Bank's website. Its purpose is to establish tax principles that will be followed by all employees and to raise awareness about the importance of taxes at the Bank and the entire EBC Group. The Tax Office continually organises trainings and workshops for employees to this end.

Clients

Responsibility in business, especially in the relation with clients, represents a basic designation of the Bank's business which is reflected in the offer of special products and services intended for certain groups of clients, and as a response to their needs and life situations. This enables a better availability of financial products to a greater number of clients, such as special offer of loan products for temporarily employed persons or a possibility of a grace period during the payment of a loan for clients whose income decreased during a certain period of time.

The Bank pays great attention to the service quality and tends to be a leading bank in terms of consumer protection and excellent customer experience. In order to achieve this, we are doing business above the framework which is legally prescribed, e.g. we enable transparent and simple submitting and solving of complaints, whereby 77% of complaints are solved within three work days. Our Contact Service is available 24/7 via several channels. Also, we strive to create customer experience based on feedback from our clients. We continuously measure the customer experience and on the basis of the results we improve processes, products and services. Among key indicators of success, goals relating to service quality take up an important place in our organization.

I. Business responsibility (continued)

In addition to the above, the Bank has developed and offered several products with the purpose of funding energy efficiency, the so-called eco-loans, which are intended both for citizens and companies and which stimulate the use of environmentally-friendly energy forms, use of renewable resources, energy efficiency etc., whereby the Bank additionally promotes development sustainability and energy efficiency in the society. For example, to clients who are buying, building or renovating a real property of the A+, A, B or C energy class, we offer lower interest rates in comparison with regular home loans. Also, the bank does business with local and international financial institutions in order to offer more favourable project funding terms and conditions in the field of energy efficiency and renewable energy resources to clients in the private and public sector, in particular loan lines that also give clients a possibility of receiving irrecoverable funds, with the aim to even more boost environmentally-friendly investments and thereby to contribute to ecology and total sustainability of the society.

We try to take care of more vulnerable groups through business and offer adjusted products to such segments of clients. We created mini loans for clients with lower revenues – offers for pensioners and employed clients. We also want to offer quality means to clients with lower incomes so they could achieve their goals. Moreover, we offer products and services specially adjusted to retirees, such as pension payment to clients' accounts by the 5th in the month, or before the payment from the Croatian Pension Insurance Institute and a lower account management fee. The Bank offers children a special product called Medo Štedo, whose goal is to create the first positive contact of children with the bank, stimulate savings habits through favourable interest rate conditions and special award programme.

Changes in behaviour and habits of clients, technological revolution and regulatory frameworks inevitably demand redesign of the current business model and the role of offices as a channel of distribution of products and services of the bank and partners. In this way preparatory activities started in 2017 so that the first pilot offices could start operating in a remodeled form with a new visual identity and a new work manner focused on the advisory role of employees and a unique customer experience for clients. In 2017 the scope of the Advisory project increased after the pilot project with 10 offices in 2016 to 40 offices last year. The Advisory project aims to change the service model in the business with natural persons and it is characterized by focus shifts from the product to the advisory approach to clients. In 2017 preparatory activities were also carried out so that the Advisory concept might be implemented in the entire sales network of the Retail Sector on the basis of the pilot project experience.

In the segment of business with small entrepreneurs, activities of improving the business model of providing services through the Service of business support to small entrepreneurs, which is focused on financial servicing and counselling of low-profitable clients, continued, and the department offers support to financial representatives and offices in the work with small entrepreneurs. The goal is to increase satisfaction of clients with speed, service quality and availability through a focused and proactive approach to the mentioned segment of clients.

Contact Form for Clients has been implemented as well, via which clients can send their questions to the Business support service for small entrepreneurs and with the opening of the mentioned contact channel, the availability of professional services for small entrepreneurs in the segment of raising awareness and client counselling increased.

In 2017 the Bank signed agreements on financing of financial instruments with local and international financial institutions (HAMAG BICRO, HBOR, EIF). Financial instruments are funded by the European Structural and Investment Funds (ESIF) and come in the form of credit lines, guarantees and guarantee schemes and are intended for micro, small and medium-sized companies with the goal to facilitate entrepreneurs' access to funding. For example, the European Investment Fund (EIF), the Bank and Erste Leasing (together Erste) signed an agreement on collateral that will enable Erste to ensure loans and leases worth EUR 100 million to innovative small and medium-sized companies in Croatia. The agreement was signed within the framework of the initiative of the European Commission InnovFin, which was supported by the EU programme for research and innovation, and enabled through the support of the European Fund for Strategic Investments (EFSI). The purpose and basic advantage of the EIF's InnovFin guarantee is to financially support innovative entrepreneurs with unconditional EIF guarantee with more favourable loan conditions for clients and ensuring of competitiveness on the banking market and reduction of non-performing loan risks and losses due to uncollectability.

I. Business responsibility (continued)

Furthermore, cooperation with institutions on local markets continued as well and during the year business cooperation with counties, local administration and self-government was agreed or renewed through diverse programmes for lending to small and medium-sized enterprises.

Cooperation with HBOR in the realization of lending within the Framework Loan Agreement continued: for current assets and capital investment. Special feature and advantage of the cooperation for clients lies in the simplified and speeded-up procedure of granting loans from HBOR's funds thanks to a shortened process of granting the loan. Also, with the goal to expand the offer of loan products, as well as increase attractiveness of the offer and loan activity, an offer of funding with fixed interest rate in EUR currency was introduced.

Clients also have funds from the credit line in cooperation with the European Bank for Reconstruction and Development at their disposal through a component for funding of energy efficiency and renewable energy resources, which comes with non-refundable funds for clients. There are also products such as an investment loan for financing of renewable energy resource projects and loans for funding of energy efficiency projects in the building sector (for investments in reconstruction / renovation on joint parts of existing residential buildings), whose offer was also kept in 2017.

The Bank operates in line with the Responsible Business Principles, whose goal is to ensure rules relating to funding, that is, providing of services in the field of energy, defence, arms and other sensitive industries. Although the Bank is not focused on funding such industries, acting in line with principles ensures managing business activities in the mentioned industries in a responsible way towards clients and the society in general.

As part of Erste Group, the Bank supports financial services in the energy sector because we believe that the electricity supply is the key element for the economic and social development, especially when we talk about Central and Eastern Europe. At the same time we see in this segment a need for reasonable management of environmental and social effects and better management of environmental risks. And this is why guidelines were set in the corporate funding of Erste Group for the purpose of implementation of the sustainability principles and regulation of cooperation of Erste Group in this industry.

New websites contributed to a development of new digital services for business entities, and clients can submit a request for opening of a transaction account and additional service, as well as submit questions about funding depending on the intention for which clients need financial means, via the website. On the website clients have an easier access to information, which is adjusted to real needs of clients.

Apart from the aforementioned activities, the Bank’s employees regularly participate in a series of group and local initiatives and projects and preparation of the implementation of regulatory changes, such as IFRS9, PAD, MIFID II, GDPR, 4th AML Directive and others, whereby we emphasize ZSPK (Act on Home Consumer Lending) and the Decision on the Effective Interest Rate Calculation, which were enforced late last year and which additionally affect the complexity of the business.

Longstanding dedication to the service quality has also been recognized by clients, which is visible through the CXI results (Customer Experience Index), where better results were achieved also last year in comparison with the main competition.

I. Business responsibility (continued)

Right to personal data protection

At the Bank, we are aware that protection of physical persons with regard to data processing is a fundamental right and that everyone is entitled to have their personal data protected. Principles and rules of personal data protection protect personal lives and other human rights and fundamental liberties in collecting, processing and using personal information and are guaranteed to every physical person irrespective of their nationality, residence, race, skin colour, sex, language, religion, political or other conviction, ethical or social background, income status, birth, education, social position or other characteristics.

a) GDPR (*General Data Protection Regulation*)

The General Data Protection Regulation (GDPR), adopted in April 2016, will apply directly in all EU member states, including Croatia, as of May 2018. The general regulation introduces new definitions, provides more detailed descriptions of existing terms, and reinforces the rights of physical persons. One of its objectives is to raise information security to the highest level in personal data access and management. The Bank works continually on improving its processes and takes adequate technical, human resources and organisational steps to protect the personal data of its clients, employees and associates. We hold the rights of the data subjects in utmost regard.

b) PCI/DSS (Payment Card Industry Data Security Standard) certificate

The Bank is certified for the fifth consecutive year under the PCI/DSS standard, thus fully confirming the compliance of the Bank's operations with this state-of-the-art international payment system standard, which is the result of investments in required technologies for the control and continuous monitoring of business processes and procedures, as well as the consolidation of application platforms that come in contact with sensitive card data. Information security policy, data handling process and computer network structure are just some of the twelve strict requirements companies must fulfil in order to ensure data protection, including data processing.

Employees

Our institution was established with the goal of providing the tools necessary to make use of one's own competences and potentials to bring big or small, private or global plans to life. This applies not only to our clients, but also to our employees. We honor and respect the fact that each employee is an individual in their own right and that they benefit the most from their diversity and variety. Erste Bank therefore strives to provide a high-quality work environment for its employees by ensuring adequate training and education, health protection, and gender equality, by reducing inequalities, by ensuring high-quality working conditions and social dialogue, by preventing human rights violations and discrimination, and by working to achieve maximum transparency and dialogue with the local community.

Labour standards

The Code of Conduct

Erste Group's Code of Conduct is a reference point for all work related demeanor, it is also link to employees' conduct regulating acts. It describes all relevant points, clearly defines the obligations, and sets the ground for action for all employees as good corporate citizens. The Code also covers the need for responsible behaviour, respect for others and sustainability in all aspects of business, thus protecting the Bank's good reputation and building trust in the institution.

By adopting the Code of Conduct, the Bank wishes to ensure a certain quality and sustainability standard in its business through the prism of its employees and corporate culture. The Group's Code is also a continuous development process that has no due date or period of application and is mandatory for all employees.

I. Business responsibility (continued)

Internal service quality

Internal service quality management process is one of the ways to establish cooperation between different units of the Bank and the Group. Through this process, the employees have an opportunity to provide open and constructive feedback about their cooperation with various organisational units and request feedback about their work and use it to improve the ways they cooperate with others.

This process also establishes the criteria that internal services must meet in the form of guidelines and standards, but also in the form of key performance indicators (KPI) for the second management line, which are defined based on the results of internal research. The internal quality KPIs extend to lower hierarchy levels in form of objectives describing certain activities that must be undertaken in order to improve cooperation with others.

Systematic and continuous attention to internal quality is important primarily in order for the Bank to be able to provide excellent service to outside clients, but also to strengthen the corporate culture based on togetherness and teamwork.

Workplace flexibility

The following working hours organisation options are available at the Bank:

- Flexible working hours in the organisational units where the nature of the work allows it,
- Possibility of working part-time,
- Possibility of introducing different workday start and end times within the same organisational unit depending on the workers' needs and the possibilities offered by the work itself;
- My Day is a flexible workplace project that allows the employees to work out of office for up to two days a month.

Breastfeeding moms are granted a breastfeeding break during their working hours at their request.
All of the above is documented in the Management Board's Decision on the Working Hours Programme and Schedule, which is revised and adopted every year.

Employee engagement

Baltazar and Ersterez – suggestion platforms

We believe that giving every employee the opportunity to make suggestions and present ideas about new ways of working, products or services or new improvements of the above constitutes a very important part of our business. There are two official channels at the Bank level that the employees can use to make suggestions and be rewarded for them: Baltazar and Ersterez. Baltazar is focused on innovation, and Ersterez on reducing red tape. All the suggestions are submitted on the Bank's Intranet and are visible to all employees, who are welcome to build on them and expand them. The suggestions are evaluated by authorised and dedicated committees that also publish their results on the Intranet and communicate directly with the employees whose suggestions have been accepted. Members of both committees are representatives of the high management who have the authority to decide about the status of suggestion on the spot (with additional consultations with other units where necessary) and they meet once a month.
Various rewards are presented to employees whose suggestions get accepted.

I. Business responsibility (continued)

Roza

The ROZA programme (ROtacija ZAposlenika – Employee Rotation) is a planned and structured temporary reassignment of the employees from their usual roles to new ones in order to build their knowledge, skills and experience. There are two ROZA categories:

- mandatory employee rotations for new employees from non-sales sectors,
- developmental employee rotations to another organisational unit.

The purpose of ROZA is to promote the development of employees and to improve cooperation between different organisational units and their activities.

Vezica

The programme Vezica (Connection), aimed at attracting new great IT staff using the network of existing employees as an extra recruitment channel, continued in 2017. In cooperation with the IT and Organisation sector, we chose IT positions that the Bank has a shortage of and offered rewards to existing employees for proactively recommending candidates who would later get hired by the Bank. This puts existing employees in the role of promoters of the Bank and gives the Bank access to candidates who might not have applied to standard job ads.

Spajalica

Spajalica (Get-Together) is a programme that puts employees in touch with the Management Board and an open communication channel form that gives employees in various Croatian cities the opportunity to speak with Members of the Board and share their thoughts, experiences, priorities and plans throughout the year. This form of communication with the Management Board continued in late 2017, when the employees had the opportunity to discuss last year's hot topics with the Board.

Continual and sound cooperation with employee representatives (Workers' Council and Trade Union)

The Bank continually invests efforts in sound cooperation with employee representatives so that this open communication channel too would contribute to the growth and development of corporate culture, the organisation as a whole, and all its employees. This is achieved through regular monthly meetings, an open door policy, and quarterly meetings with the Management Board and the Workers' Council.
In addition, the Bank actively fosters knowledge sharing between its organisational units, sectors and employees. Working and Training Meetings are regularly organised with all organisational units as an opportunity to share information, attend different workshops and so on. Working and Training Meetings are organised within a single organisational unit or in several related units and are a part of the Bank's corporate culture, whose purpose is to advance the collective knowledge and awareness of the employees within different organisational units. By sharing knowledge, employees advance and develop the already established processes and establish new ones, with the vision of elevating the common business direction and corporate culture to a higher level.

I. Business responsibility (continued)

Health and safety

Health protection

Efforts devoted to protecting employees' health are an important factor in any company, and the Bank is no exception. We are offering several possibilities in this area:

- Private health insurance policy at a polyclinic that all bank employees are entitled to use,
- Free annual physical examination, including suggested additional tests,
- Preventive flu vaccination at the employer's expense,
- 24-hour extra accident insurance,
- Lectures on health topics available to employees in several major cities,
- Extra benefits, such as lower prices of services and products offered through a broad and stable network of outside partners (e.g. discounts at sports facilities, spas, polyclinics, etc.),
- Participation in sports events (Banking Games, B2B race, etc.),
- Organised yoga classes for employees in Zagreb two times a week.

All health-related benefits are equally available to all employees, Members of the Management Board and all other Bank employees alike.
In addition, the Bank cares for the health of its employees directly through regular facility maintenance based on SLAs (Service Level Agreements) within maintenance agreements and on legal requirements, including regular cleaning of ventilation shafts and air conditioners, office cleaning and disinfection, measures for disinfection, disinfestation and pest control, as well as other preventive maintenance of facilities.

Safety

All employees are regularly trained in all safety aspects of the Bank's operations through very strict both banking and financial sector relevant trainings, in particular through e-learning programmes. Occupational safety is a constituent part of labour organisation and execution of work processes. It is achieved through the application of basic, special and recognised occupational safety rules, technical instructions and manufacturers' user manuals, superior measures introduced by controlling authorities, and so on. The purpose of occupational safety implementation at the Bank is to establish safe working conditions to prevent workplace injuries and accidents.
Safe and healthy working conditions in our organisation are accomplished through compliance with the Occupational Health and Safety Act and related regulations and practices, as well as internal regulations and instructions. Basic, special and recognised occupational health and safety rules, safe working instructions, technical instructions and manufacturer's manuals, superior measures introduced by controlling authorities, etc. are implemented in the performance of work processes. By complying with occupational health and safety rules, we establish safe working conditions to prevent professional illnesses, work-related illnesses and workplace injuries and accidents. By training authorised employee representatives and contingent workers in safe work procedures and fire protection, by training contingent workers to be evacuation managers and carry them out, and by training contingent workers in first aid, we teach our employees about the hazards and dangers to their life and health, as well as protective measures in the performance of specific tasks and jobs to eliminate or minimize existing hazards as required by the Occupational Health and Safety Act and its by-laws.
In addition, occupational health and safety trainings and fire protection trainings are organised for all new employees.

I. Business responsibility (continued)

Gender diversity/equality and prevention of discrimination

In the Bank, 74.4% of employees are women, and the remaining 25.6% are men. Overall, the percentage of women in managerial positions at the end of 2017 was 56.69%, compared to 53.44% a year before. When it comes to top management positions, the share of women in the same period increased from 20.0% to 24.1%, while their share in middle management positions increased from 61.3% at the end of 2016 to 66.3% at the end of last year. Average employee age is 39, and average age of the employees in managerial positions is somewhat higher (45).

The prevention of discrimination is regulated by the Work Regulations, which also describe the complaint procedure and the activities that persons in charge of complaint resolution are required to undertake. Persons from Legal Affairs and Human Resources who are in charge of resolving complaints related to protection of dignity and protection against discrimination in the Bank were appointed by virtue of a special decision of the Management Board.

There is no discrimination in the selection and recruitment process, and the job ads always underline that persons of both sexes are welcome to apply. All interested candidates who meet the requirements for the job, as explained in the job ad, always have the opportunity to apply for all positions.

The Group Diversity and Engagement Policy was adopted in early May 2017, regulating the principles of diversity and engagement that Erste Group commits to uphold. Our partnership with the association Women in Adria, whose Future Leaders Conference we sponsored, is one of the initiatives launched under this policy. The Conference was organised to promote and empower the emerging women and provide advice and guidance in the business world through mentorship.

Diversity Charter

The Diversity Charter is a document written by each country individually whose text is signed by business and other organisations as a token of their commitment to implement a policy of diversity and non-discrimination in their working and business environments. The project was launched earlier this year, and the Bank is among the signatories of the Charter, with emphasis on diversity in creating a stimulating work environment.
The Croatian Business Council for Sustainable Development is a Croatian organisation promoting corporate social responsibility, and the Charter makes a contribution to the development of the society and to the promotion of equal opportunities for all its groups.

Trainings and education

At Erste Bank, we believe that a combined approach and life-long learning are the optimal learning methods. The Bank therefore offers a variety of opportunities and types of educational programmes:

- Classroom learning: formal training (seminars, trainings, workshops, conferences),
- On-the-job training and mentorship,
- Coaching,
- Rotations,
- E-learning,
- Professional literature,
- Participation in projects, etc.

I. Business responsibility (continued)

The standardised trainings and educations organised at the Bank are included in the Training Catalogue, a separate document published on the Bank's Intranet and available to all employees. The Training Catalogue is divided into:

- Professional trainings categorised by specialised know-how and organisational units,
- Trainings related to the key company training model - separate trainings for employees and managers,
- E-learning programmes related to key company trainings, first introduced in 2016,
- MS Office trainings,
- Employee rotation programmes,
- Trainings in human resources (train-the-trainer, mentor trainings, etc.)

Competence quarters

Trainings related to the key company training model are offered in the Competence Quarter format, which gives employees an opportunity to apply for trainings in individual competences and introduces them to a different competence each quarter. In addition, since we intend to offer different training formats to our employees, we introduced short 90-minute trainings (Espresso Trainings) offering trainings in specific skills such as feedback, SMART goals etc., depending on the current topic in the performance management cycle.
All employees have the opportunity to apply for some of the trainings at their own initiative, regardless of their type of job or role. 100 percent of our employees underwent some form of training last year. Out of the total number of days invested in training, 51 percent were internal trainings organised and facilitated by the Bank's internal trainers from the business organisational units or by Human Resources staff, which shows that we are still making very intensive use of the internal knowledge base and internal trainers.
The average number of training days per active employee increased from 4.29 to 4.89 in relation to 2016.

Employee programmes

During 2017, due to business needs, various tailor-made programmes for specific groups of employees were initiated:

- *Erste Start* – modular soft skills programme for all newly employed and newly promoted executives, which existed in the previous years too, but was further refreshed in 2017. The generation of 2017 has 40 participants, and all trainings are carried out in cooperation with external companies;
- *REA* – programme for the development of directors in the regional directions of the Retail Division and Small Entrepreneurship Direction;
- *REX 2.0 (Retail Excellence)* – short follow-up of the development programme for 18 directors of directions and their deputies in the Retail Division;
- *rePractice* – regional programme whose main objective is the exchange of experiences and knowledge in the retail area;
- *COSY (Corporate Synergy)* – regional programme for employees of the Corporate Division. The program consists of modular programmes of education and rotations;
- *NLP Praktikum* – end of the programme based on the principles of neuro-linguistic programming (NLP), which is developed and tailored for high management, more precisely, for all directors of the second line of management, their deputies and members of the management boards of affiliated companies;
- *HR Refresh* – programme designed for line executives related to specific issues and practices which executives encounter on a daily basis in the operational management of employees;
- *Erste Compact* – tailor-made programme designed for high management. Modular programme consisting of 4 modules in cooperation with the Institute of Innovation;
- *SUPEeR* – tailor-made development programme for all executives in the Controlling and Accounting Division;
- *topFIT* – tailor-made programme for all executives in the IT and Organisation Division.

In addition to the above programmes, cooperation was established in 2017 with external educational companies and institutions, whose programmes were used for employees and executives who were recognised as potentials.

I. Business responsibility (continued)

Corporate culture

Blue Elephant

This is a corporate culture project that was launched with the purpose of active management of our corporate culture. It is a common name for all of our activities, values, and behaviours through which we define and support corporate culture. The name and identity of the Blue Elephant is manifested through a common and systematic description of all bank's activities, as well as values, behaviours, and characteristics that define and support the corporate culture and development thereof.

The concept, vision and mission of the Blue Elephant are defined through the following segments of corporate business and employee involvement:

1. Employment of a certain (correct) profile of people
   Super profile – defining a universal and optimal profile of candidates for specific jobs (e.g. cashier);
2. Cooperation
   Developing the culture of open, honest and constructive feedback with mutual respect;
3. Impact and development management
   Lowering responsibility, delegating tasks, promotion and celebration of success, and credibility;
4. Consequence management
   Timely communication of good and bad things/segments and assuming responsibility;
5. Innovativeness
   Dedicating time and resources for the development of new ideas and innovativeness in employees
   Through activities from these five areas, all employees constantly and jointly work on improving and developing corporate culture (as well as on the business itself), systematically through processes and on the individual level (Blue Elephant workshops).

The Blue Elephant's activities and all related communication are based on the principles of the Statement of Purpose, the strategic document of the Erste Group, which gives priority to promoting and ensuring prosperity, serving to the civil society and the people, as well as setting the question of validity of procedures above the category of profitability.

The Blue Elephant's goals are:

1. to raise awareness about the importance of corporate culture and its impact on employees and clients
2. to ensure personal engagement from the top to the bottom as well as dedication to making changes
3. to ensure easy and simple identification of all employees for the purpose of the company
4. to increase satisfaction with Internal Communications
5. to contribute to the quality of human resources management

The Blue Elephant is integrated into internal communication through presentations, the so-called workshops with a purpose, the creation of the employees' personal Blue Elephant, the Erste Staples - meetings of the Administration with the employees, issuing of a thematic newsletter, forming the Blue Elephant Ambassador network, a section on the intranet entitled Whisper to the Blue Elephant, direct communication of the Blue Elephant via email and a profile on the intranet, as well as a via a personalized scheduler that each employee received personally.

All project goals during 2017 have been met. For example, according to the research on organizational culture and climate, which was conducted during 2017, the employees who participated in the so-called Blue Elephant's workshops with a purpose perceive corporate culture as being more important and more positive for the organization (3.76 - on a scale from 1 to 5) than those who have just heard or read about corporate culture (3.36). Furthermore, the level of identification with the organization is higher among the employees who participated in the workshops with a purpose (3.93) compared to the others (3.67). Also, an increase in satisfaction with internal communication was achieved, and it increased from 8.1 in 2016 (on a scale from 1 to 10) to 8.2 in 2017.

II. Social responsibility

Transparency

Clear, transparent and easy communication with all parts of the public is one of our main goals. We publish useful advice from the field of finance on a regular basis through the Bank's website, and we are also present on numerous social networks (Facebook, LinkedIn, Twitter, YouTube, Instagram, Blog Without Tie) and thus contribute to education and transparent communication with our clients and across the general public, about numerous topics from the field of financial literacy and general situational information on the field of economics - for example, macroeconomic trends, capital market developments, security issues related to bank card use, fraud protection, savings and investment advice and many other.

In addition, one of the Bank's important goals is creating and continuously maintaining quality long-term relationships with the media representatives as direct mediators of the public's interests. The role of the Bank in reaching this goal is based on the principles of openness, availability and respect for the role of the media in public discourse. Through the creation of a well-established and transparent communication platform, while at the same time coordinating all communication activities with the members of the Group, we strive to ensure a high-quality and seamless flow of information towards the public i.e. all parts of it.

Dialogue with the local community

The Bank endeavours to nurture two-way communication with the local community and achieve as much transparency as possible.
This is contributed to by partnerships with numerous associations, faculties, exhibitions and presentations at fairs, conferences and conventions throughout Croatia, and some of the examples are:

- Golden partnership with AIESEC for the second consecutive year and participation at the AIESEC Business in Practice conference;
- Continuation of the strategic cooperation with the Technical College in Bjelovar;
- Participation at numerous fairs and conferences;
- Participation at the 2017 Career Week organised by the Faculty of Organisation and Informatics,
- 12th Student Future Day organised by the Zagreb School of Economics and Management (ZSEM);
- Career Education Day 2017 organised by RIT Croatia;
- The fair of universities organised by the University of Zagreb;
- CEO (Career and Entrepreneurship Opportunities) conference organised by the Faculty of Economics and Business Zagreb;
- Virtual career and knowledge fair organised by the portal moj-posao;
- The Higher Education and Scholarships Fair in Rijeka and Zagreb organised by the Institute for the Development of Education;
- Job fairs organised by the Croatian Employment Service in several cities

During 2017, 75 students performed their professional practice at the Bank. 53 of them applied for unpaid practices the purpose of which it to meet the obligation at the faculty or provide a basic insight into the real business area in which the student is interested.
With its student programmes, the Bank also joined the Youth Initiative, started with the aim of facilitating the inclusion of the young in the labour market. The Youth Initiative was started by the Croatian Employers' Association and the European Bank for Reconstruction and Development, while the Bank wants to bring the possibility of acquiring quality first work experiences and potential further employment even closer to the young people.
When it comes to sporting events, the Bank has been devoted to the Ekonomist rowing club for years and has been its proud sponsor. The Regatta of the Faculty of Economics and Business has a long tradition and is held every year at the Jarun Lake in Zagreb, attracting participants and visitors from all over Croatia and the neighbouring countries. It is the only regatta of this kind that is organised by a faculty of the University of Zagreb. The Bank, as the general sponsor of the Regatta, wishes to allow the members of the Association to engage in rowing in the best possible manner along with their studying, and to develop as quality and responsible members of the academic and business community.

II. Social responsibility (continued)

Scholarships

The implementation of two programmes of 3-month professional practice Dress Rehearsal and IT lab was continued in 2017. They are intended for full-time and excellent students of the Faculty of Economics and Business in Zagreb, Rijeka and students of technical faculties who are oriented towards the acquisition of practical and theoretical knowledge and connection of students with the Group, four of which received scholarships.
During the year, students could apply for the Best of South East scholarship programme, initiated by Steiermärkische Bank und Sparkassen AG (Sparkasse Bank) in cooperation with the University of Graz. It is intended for graduates and students with very good grades and expressed characteristics such as dedication, developed communication skills and analytical and practical economic thinking. The programme includes one-year practice at Sparkasse Bank or some other Styria-based company for graduates and a year of studying at the University of Graz for students.
At the end of the year, the Bank participated in the Step into Life campaign by granting scholarships for children without adequate parental care to enable them to undertake a university education. Along with the Rotary Club Zagreb Kaptol, the Bank is the largest individual sponsor and will grant scholarships in the monthly amount of HRK 1,600.00 to five students during the next five years.

Social banking

In late 2015 the Erste Group launched the social banking initiative Step by Step, whose goal was to directly respond to the needs of the segments of societies that traditionally did not have access to banking services. Erste Group's social banking initiative stimulates the financial inclusion of individuals with low incomes, entrepreneur's beginners and non-governmental associations, offering them access to financial products, financial counselling and continuous mentorship tailored to their needs, which enables them to gain self-confidence that they need in order to improve their lives. The launch of the social banking initiative on all seven key markets of Erste Group will be completed by 2019, when the Erste Group Bank AG will celebrate its 200th anniversary.

During the last two decades countries of Central and Eastern Europe made a very important progress in coming closer to Western Europe in terms of prosperity[2]. However, some studies[3] show that some 16 million people in countries in which Erste Group operates (Austria, Czech Republic, Slovakia, Romania, Hungary, Croatia and Serbia) are exposed to risk of poverty or social exclusion, which accounts for some 30 per cent of adult population[4] in the region. Three out of four persons in this group failed to gather enough savings that could help them in the case of unexpected costs, and one out of five persons cannot afford adequate heating at home. On top of that, the level of incomes of seven out of ten people with low income in the region stagnated or decreased in the past decade. Operating through their network of local banks, as well as in partnership with other organizations and non-governmental associations, Erste Group's social banking initiative has a goal to help open 5,000 new jobs, finance 500 non-governmental associations and improve financial stability for 25,000 individuals who had low incomes by then by 2019.

Erste Group thinks that the economic and social influence of small entrepreneurs is very important because numerous social and economic shifts occur through the multiplier effect – from creation of new jobs, increase of consumption to the offer of new services.

The Bank joined the mentioned initiative at the Group level Step by Step and will carry it out in three phases.

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[2] Source: Central and Eastern European Prosperity Report, Legatum Institute

3 Source: Eurostat

4 16+

II. Social responsibility (continued)

The first phase is the programme Entrepreneurial Starter, which is intended for all those who will embark on an entrepreneurial adventure, that is, for entrepreneurs-beginners who have opened their own business within the past two years. Our goal is to stimulate self-employment and development of entrepreneurship by offering support on the path of development and realization of a business idea, and it includes free education, business tools, counselling and funding. After the completion of education and counselling, interested candidates can submit a request for a loan to the bank. In 2017 within the programme a total of 331 applications, out of which 15 loan requests worth EUR 194,313 were received and 158 candidates educated. Foundations for the Entrepreneurial Starter programme were set with the Microfinancing project, which the Bank carried out in seven Croatian counties between 2011 and 2014. In this four-year period, 84 entrepreneurial projects worth more than HRK 6.1 million (EUR 815,000) were backed by micro-loans. Out of these clients, some 85% operate more or less successfully.

Entrepreneurship can be a positive model of solving social issues or situations. From the Bank's perspective, the support to sustainable entrepreneurial project instead of a one-time sponsorship and donation can be a long-term solution.

Furthermore, in 2017 the Bank started to carry out the Financial Parachute programme. This is an educational programme for citizens whose goal is to increase knowledge about disposition of money, that is, management of home budget. One of the goals of the programme is also to develop good consumer and savings habits, teach how to optimize costs and how to better understand financial products and their real purpose. In this way foundations for achievement and maintenance of financial stability and their long-term development were set. Some of the topics that the Financial Parachute programme covers are revenue and cost analysis and home budget management, setting of financial goals, development of a real and sustainable financial plan and its realization in daily life etc. On top of that, the programme offers additional support because a free 4-hour educational training and an individual meeting with a mentor with whom they can develop a personal financial plan was offered to customers. In 2017 155 participants passed through group and individual workshops.
With the implementation of the Financial Parachute programme, the Bank actively operates in line with the National Strategic Framework for Financial Literacy of Consumers for the 2015-2020 period, which the Government of the Republic of Croatia adopted with the goal to raise financial literacy of consumers.

On top of that, we started to conduct the programme of development and partnership with non-governmental organizations. Considering the fact that we are focussed on the inclusion of marginalized groups of citizens and business entities, the success of the business model is based on inclusion of all sectors, especially the civil sector.

It is worth mentioning that the Bank, in cooperation with ACT Group, which is a community of social entrepreneurs and a social entrepreneurial support institution, and with one of the leading global micro-financial funds, the European Fund for Southeast Europe, partner in the implementation of the project Accelerator for Social Entrepreneurs. The goal of the project is to ensure business support to social entrepreneurs for growth and future investments. The project aims to speed up the development of strong and sustainable social entrepreneurs, increase their social influence and strengthen the support eco-system in Croatia.

The Bank also cooperates with public institutions in stimulation of the entrepreneurial development, so in 2017 an agreement on business cooperation with the RAZA development agency of the City of Zagreb was signed. The basic goal of the business cooperation is to work on the creation of educational workshops that will offer the future and existing entrepreneurs basic knowledge that they need for a successful launch and management of a company.

II. Social responsibility (continued)

Donations and sponsorships

The Bank recognizes the great importance of investing in the community it operates in and is actively involved in various initiatives and projects that contribute to the development of society and the quality of life, both locally and across Croatia. During 2017 the Bank once again participated in numerous cultural, scientific, health, educational, sport, environmental and charity projects, giving a total of HRK 9.82 million through donations and sponsorships.

Here is a brief summary of the most important initiatives that we have supported through sponsorships or donations:

- Around 150 charity projects and institutions
- Around 80 education projects
- Around 120 sport clubs, associations and projects
- Around 90 culture and art projects and institutions.

When it comes to initiatives in culture, we would particularly like to highlight the Urbanka project – the Bank's creative platform for supporting cultural projects. An integral part of Urbanka is the Erste Fragments project which was held for the 13th time last year, receiving 180 submissions. Erste Fragments is an annual competition for the purchase of artwork by young Croatian artists (under the age of 30). The Bank also supports young artists through awards and scholarships for students of the Academy of Fine Arts. The numerous artworks that have been purchased adorn the premises of the Bank's business buildings and branch offices across Croatia.

We would also like to mention the Rijeka Carnival – the biggest carnival in Croatia that takes place in late January and early February every year. In 2017, the Bank supported the carnival's International Parade for the 14th time. In addition, for the 3rd time the Bank was the general sponsor of the Children's Carnival Parade, the Crowning of the Rijeka Carnival Queen and the giving of the Keys to the City. Rijeka Carnival greatly contributes to the promotion and tourism offer of the City of Rijeka, the Primorje-Gorski Kotar County as well as Croatia as a whole. In 2017 we also sponsored the International Small Scenes Theatre Festival in Rijeka which celebrated its 24th anniversary, hosting theatre companies from Croatia and abroad, as well as the Tomislav Gotovac exhibition in Rijeka - a large-size exhibition at Rijeka's Museum of Modern and Contemporary Art which presented a selection of over a hundred artworks produced over the course of sixty years of Gotovac's career, which was seen by over 6,000 people.

The 15th Christmas Gala Concert was held in Bjelovar, organized by the BjelovarArt association which also enjoys the Bank's financial support. We also support the Osor Musical Evenings festival which takes place in summer months in Osor on Cres Island, and the International Lace Festival on Pag Island which promotes the value of lace as an important part of cultural heritage. Of course, there are also numerous other cultural events that the Bank proudly supports, all of which promote local customs and culture as well as support tourism activities.
Then there are activities that support the social community. Among them we must point out the donation for young paediatric surgeons' training, improving hospital work conditions and purchase of equipment for the Children's Hospital in Zagreb, the donation for orphaned children and activities of the SOS Children's Village as well as the donation covering the accommodation costs for orphaned children at the Nazorova Children's Home. The long-term support to Bjelovar General Hospital through donations continued in 2017 through several donations given to the Hospital, the latest of which was in October. This donation was used to purchase equipment that the hospital needed, and the hospital was also gifted a diesel fuel generator that will serve as an emergency power source in case electricity goes out. Land of the size of 5,440 m^2, estimated to be worth HRK 920,000, was gifted to the Osijek First Gymnasium which was in need of a land plot for the construction of a new building. We believe that an individual can achieve full personal growth and potential only when they are able to freely express all aspects of their being, which is why we also support gender equality projects, such as Vox Feminae.

II. Social responsibility (continued)

Knowledge is one of the drivers of creativity, improvement and growth, which is why we strive towards including as many initiatives, associations and events focused on educational activities in our donation and sponsorship activities. These include: Future Leaders project (Women in Adria), Torpedo Student Festival, furnishing classrooms and procuring equipment for the Bjelovar Polytechnic and numerous primary schools and high schools in Croatia. We also sponsor AIESEC Croatia – an international student association which, among other, organizes the Careers in the Spotlight student conference, and the Faculty of Business and Economics in Zagreb which organizes the CEO conference which aims to stimulate students to achieve their life and business plans.
In addition to the above, through sport sponsorships and events, the Bank also puts emphasis on sport, particularly on promoting sport and sport activities among children. One of the major activities that we undertake when it comes to promoting sport among children is Erste Blue League – children's sports league open to primary school students in Croatia enrolled in grades 3 to 6. During the 5th Erste Blue League that was organized in 2017, the 60 Minute GO campaign was carried out, promoting experts' opinion that children should spend 60 minutes every day doing physical activities. In five years that Erste Blue League has been taking place, more than 19,000 competitors and 30,000 trainers, parents and teachers participated; in 2017, 3,430 students competed in Erste Blue League events.

We should also mention the Homo si tec sport and recreation festival which was held for the 21st time in 2017. As a result of increasing number of competitors and the involvement of adults and children of all ages, this event has grown into the biggest street sport event in Croatia. Last year, the Bank sponsored this festival for the 12th time in a row.
Erste employees regularly participate in the B2B Run races, business races aimed at employees of companies registered in Croatia.
We should also mention initiatives launched by various sectors of the bank. Since 2013, the Bank has had the HOPE donation fund which collects employee donations that go towards helping orphaned children that live in children's homes across Croatia. Employees are free to choose whether they will donate and how much, and can opt for a one-time donation or set up regular monthly donations via an open payment order. The initial idea was to collect small monthly donations from a larger number of employees in order to help children's homes to procure equipment and other necessities that children need. In 2017, over HRK 30,300 was donated through the Fund. Of that, HRK 17,560 was donated to Maestral children's home in Split for equipment to be used by children living there, while HRK 12,770 was donated to the Mali zmaj association from Zagreb to buy firewood for nine families, which have 24 children in total.
There is also the AZIL initiative, a cashiers' solidarity fund, i.e. a special purpose and completely voluntary fund for covering cashiers' shortages and financial damages suffered by clients as a result of cashiers' mistakes when working with clients.
All employees may join the fund, regardless of their job position, but only cashiers benefit from the fund (job positions: junior cashier, cashier, senior cashier, cashier assistant, treasury cashier, cash operations manager, branch office manager that works at the cash register and other jobs that include working at the cash register). The membership fee is HRK 25 a month for cashiers and is collected from members' salaries, while other members that join the fund out of solidarity donate any amount they want, which they specify upon joining.

In 2017 the Bank again supported and actively participated in the project of the Erste Group entitled *Contact. The Art Collection of Erste Group and ERSTE Foundation*. It is about a collection founded in 2004, which includes more than 600 works of art by 104 authors / authorial groups from 17 countries, focusing on eastern, southeastern and central Europe. 109 of these works refer to Croatian authors, 16 of them altogether. The collection is complemented with new works of art every year.

II. Social responsibility (continued)

Humanitarian campaigns

Erste challenge

The campaign in which the employees of the Group undertook a task to run 20,000 kilometres lasted from April to December 2017. The Bank decided to reward the successful achievement by donating HRK 10,000 to one of the humanitarian organisations selected by the participants themselves. At the end of the year, the campaign was completed successfully for more than 90 runners, employees of Erste Group in Croatia, who exceeded 20,000 km together. The said amount was donated to the Karlovac-based association Jak kao Jakov (Strong as Jakov) as help to children suffering from malignant diseases. Five most persistent runners received symbolic presents.

Corporate volunteering – Pay It Forward

Corporate volunteering is more than a one-off campaign at the Bank level. It is a process of volunteering and providing help by setting aside employees' time to help others. For the employer to further encourage employees, the possibility of volunteering during working hours has been introduced for all employees interested in being included. They can use one working day per year for this during their working hours. Through various projects throughout the year, employees helped and acted together to do good. This may have included socialising with elderly or sick retirement home users, cleaning the environment, and similar. Examples of campaigns in which employees took part during the year are listed below:

- Red Cross in the blue frame in the Marjan Forest Park territory – the environmental project of the Red Cross, which aims to raising the awareness of the importance of preserving the beautiful nature of the Republic of Croatia by cleaning the sea and the coast,
- Centre for Education Lug, Bregana – development of open areas,
- Children's Home Ivana Brlic Mazuranic, Rijeka branch office – garden decoration,
- Social association Humana Nova, assistance in trade, sorting, and loading and unloading of goods,
- Caritas home for children with developmental difficulties in Brezovica, painting of rooms,
- Association Prostor rodne i medijske kulture K-zona (Expansion of Gender and Media Culture Common Zone), decoration of the premises for the work of the association.

Since 2015, the Bank has been the signatory of the Charter Recognising Competences Acquired by Volunteering.

Happy Hour

Employees of the Bank regularly, two or three times a year, organise campaigns of selling cakes and other sweet products (made by themselves) and thus raise funds which they donate to associations or individuals in difficult life circumstances.

II. Social responsibility (continued)

Exchange of knowledge

For nearly 20 years, we have been relentlessly working on ourselves and our products, processes and services within Croatia so that we would respond to the wishes and needs of our clients in the best possible way within our operations. We also believe that knowledge is the driver of every society and we are aware of the responsibility we have in the area of developing financial literacy at every age.

Therefore, the Bank periodically organises various workshops and educational modules for clients and the general public. Thus, a project comprising a series of lectures titled *Small School of Banking*, focused on financial literacy and intended for primary school children, was continued in 2017. It presented the basic information and interesting facts about money, saving, online shopping and other related subjects in a comprehensible way.
For the purpose of developing financial literacy and a better understanding of the development and purpose of money with children and young people, the Bank organised an interactive exhibition Alphabet of Money at the Technical Museum which was realised in cooperation with the ZOOM Children's Museum from Vienna and the Frida & Fred Children's Museum from Graz. The exhibition was opened in 2015, ended in April 2017, and has visited 38,000 people.

Also, every year our team of internal trainers organises various free themed workshops. For 2017, we would like to point out the workshops for the purchase of real estate organised by the teams of the Erste Training Centre and Erste Real Estate, and clients and non-clients of the Bank could hear more about how to choose the right real estate for themselves, the development of the real estate market, how to obtain a housing loan, and similar useful information. During 2017, more than 130 people participated in five workshops held in Zagreb, Rijeka, Pula, Split, and Osijek.

Our colleagues often visit kindergartens and kindergartens groups, as well as primary school children, to bring various financial terms, the purpose of money and other financial institutions closer to them. This is particularly pronounced on the Savings Day, which is marked in the Bank with the arrival of kindergarten and primary school children to branch offices. They have a chance to talk to the cashiers, advisors and personal bankers, and ask everything they want to know. Our savings mascot, Medo Štedo, is especially interesting to children and also plays a major role in promoting financial literacy.

Apart from this type of participation, the Bank also actively worked on developing financial literacy of the society through participation in the traditional marking of the World and European Money Week last year. Last year the week was marked between 27 March and 2 April, and the Croatian Chamber of Economy organised lectures in five Croatian cities.
Employees of the Bank often participate in other workshops, lectures and events organised for the purpose of increasing financial literacy.

II. Social responsibility (continued)

Awards and recognitions

We believe that others describe us best, so we would only like to point out some of the awards and recognitions we received last year.

In March 2017, at the 5th annual HR conference, which gathers HR experts, managers, entrepreneurs and representatives of state institutions, the Blue Elephant was declared the best HR practice in the previous year. This is an award presented as recognition to devoted and planned work of companies, teams and individuals who are successful in managing human potentials.

In April 2017, the Bank received several awards at the advertisement festival Days of Communication – gold Idea X for the campaign for housing loans, and the MIXX award for the best digital strategy for the campaign Erste powerful online services for entrepreneurs.
At the Future Leaders conference in June last year, colleague Snjezana Krpan Mamuzic, Deputy Head of Small Entrepreneurship Direction, won the recognition in the banking category.

In mid-2017, the Bank was declared to have the best HR practice in Croatia by the leading consulting company for human potential management and, among other things, earned the prestigious Employer Partner Certificate. The Employer Partner Certificate is a recognition awarded to organisations based on the assessment of the development of employee management practices in five main areas:

- Strategy,
- Recruitment and selection,
- Performance management,
- Training and developing and
- Relationship towards employees.

The Group achieved 98% out of the total number of possible points in the certification process and thus won the aforementioned award.

Moreover, the Bank won the award for the best private banking service in Croatia for 2017 within the Global Private Banking Awards, which are mutually organized by international financial magazines The Banker and PWM.

Of course, there are many other awards and recognitions that colleagues won based on good work and outstanding results.

III. Environmental responsibility

In the ecology and environment segment, the Bank strives to business processes of greater quality and environmentally sustainable business. In equipping of offices, as well as in our daily work and communication with clients, we try to achieve as high environmental standards as possible.

Because of the environmental aspect of saving paper, as well as simpler use, we inspire the Bank's clients to work and operate online more, therefore the Bank enabled digital submitting of requests for the Bank's products, and the General Terms and Conditions are available in offices via tablet devices instead on paper. We mainly try to replace posters in offices with digital displays wherever possible. Instead of classic notifications that we send by mail to home addresses, we try to send as many memos as possible by e-mail, and we often carry out individual campaigns for transfer from paper monthly statements to electronic ones.

In its daily business, we use ecological, recycled paper for printing across Erste Bank offices in Croatia.

Also, at the initiative of employees, praiseworthy Project for PET was launched. This is a project of organized collection of plastic packaging in Erste business centres in Zagreb and Bjelovar, which is carried out in cooperation with the Association for Promoting Inclusion. The Bank's employees collect plastic beverage bottles that beneficiaries of the association carry to recycling yards, and use the collected funds to finance some of their needs. With the organized collection of plastic bottles, the Bank helps the community in which it operates twofold. Apart from recycling of big amounts of plastic bottles, which is per se an environmentally useful act, the Bank helps to launch entrepreneurial activities of the socially vulnerable population – mentally-challenged persons who usually have a very hard time to find a job. Also, reduction of the amount of plastic waste in the form of PET water bottles at the level of the entire network of the bank is carried out with the introduction of devices for the production of potable water obtained from the water network in a reverse osmosis process. The potable water, which is available to employees in this way, is not in plastic packaging.

Equipping of business premises and saving of energy resources in business

In the equipping of offices and other business premises, the Bank takes care of all aspects of environmentally-friendly and sustainable business. In its business the bank uses energy-saving light bulbs and LED energy-saving advertisement billboards, tries to recycle as much paper as possible, conducts heating and cooling of buildings in an environmentally-efficient manner – by using programme and technical solutions optimization of consumption of energy resources, regularly maintains equipment in order to increase its durability and reduce the amount of waste etc.

Two key goals set for 2017 were:

- Introduction of the environment management system on the basis of the ISO 14001:2015 international norm at the level of the entire bank,
- Development of Energy overview for big companies.

We underline with pleasure that both goals were fully achieved.

ISO 14001:2015 was introduced in all offices of the Bank in December 2017. The project lasted nearly eight months, and we made sure that the same thing was successfully carried out by our affiliated companies (ECC, Leasing, Factoring and Erste Podgorica). The Bank opted for sustainable development and care for the environment protection, which is visible from the ISO standard-based Environment Protection Policy. The long-term goal is reduction of negative influence on the environment through energy efficiency increase, reduction of resource consumption and continuous improvement of the Environment Management System. In line with Erste Group's goals, strategic goals for saving of energy resources and photocopy paper in were set within the ISO 14001 and in comparison with the referent 2016.

III. Environmental responsibility (continued)

Erste Bank's goals for the 2017-2020 period are:

- Reduction of electricity consumption by 5%,
- Reduction of thermal energy consumption by 5%,
- Reduction of photocopy paper consumption by 5%,
- Introduction of sorted waste collection in 2018,
- Introduction of environmentally-friendly solution for the use of cloth towels instead of paper towels in bathrooms and kitchenettes in 2018.

CO2 emission reduction has not been defined as a strategic goal because the Bank reduced the emission by high 60% in the previous period (2012-2016). Since we renewed the agreement with power utility HEP on the supply of electricity from 100% renewable resources in August 2017, and thanks to the above mentioned goals, there is no doubt that the CO2 emission will remain at the existing level in the worst-case scenario.

CO2 emission in tones by FTE for Erste Group members

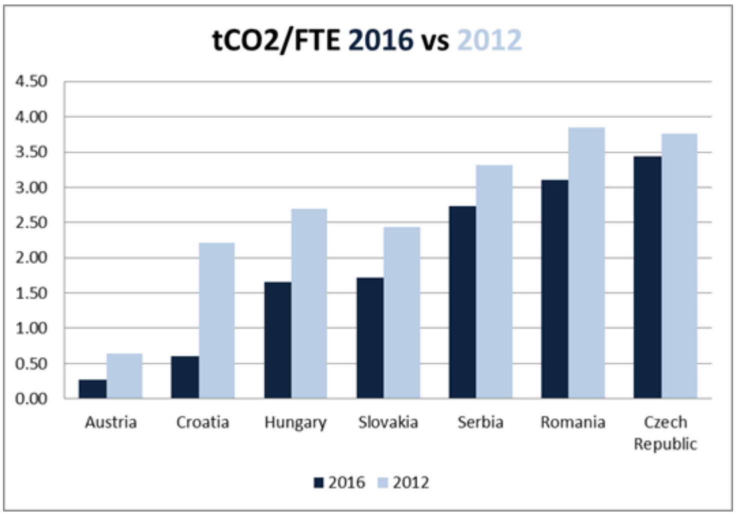


Chart 14: CO2 emission in tones by FTE for Erste Group members (comparative data for years 2012 and 2016)

Activities for monitoring and reduction of car gas and fuel consumption will be launched additionally.

Active cooperation of our employees is of key importance for the achievement of these goals. In this regard the plan is to educate all employees on how to rationally save energy and consume less paper, how to correctly sort waste and make a systematic training in the ISO 14001 standard and all of its elements and goals.

Apart from the participation of all employees, contribution to the environment protection was assigned as a permanent task by the Management Board of the bank to the so-called Environment Manager, his deputy and the formed Environment Team within the Assets and Cash Management Sector.

Special attention is paid to the fact that the basic condition for the procurement of equipment and furnishing of offices is not the lowest price, but that it also includes later exploitation costs, which means that higher energy efficiency class equipment is procured and built in. A positive example is opening of a new office in Krapina with three-layer insulated glass, whereby the office is among the five business premises with the lowest specific consumption of the delivered energy of 100.5 kWh/(m^2 a).

III. Environmental responsibility (continued)

In 2017 installation of protective films against the sun, which apart from offering a lot better conditions for work of employees in the summer, also lower the consumption of electricity necessary for the heating as well as lighting system (because lights are not turned on during the day because it is no longer necessary to shade offices with window shutters and other shades). In 2017 films were built in the following offices: Bjelovar, Djakovo, Kutina, Nasice, Garesnica, Vukovar and Otok, whereby the electricity saving from May to October for the last three locations was in the respective order: 19.30%, 8.15% and 1.96%.

Consumption of energy resources and photocopy paper

In comparison with the referent 2016, the consumption of energy resources and photocopy paper in 2017 remained at the same level in terms of the absolute volume (the consumption of gas remained the same, consumption of electricity and thermal energy increased, and consumption of gas and heating oil decreased). However, since the FTE number increased by 6.9% (from 2,235.75 in 2016 to 2,389.94 in 2017 – data from September for both years), the consumption of energy resources and photocopy paper per employee decreased:

- Electricity reduction of 3.00% (from 4,473 kWh/FTE to 4,339 kWh/FTE),
- Gas reduction of 6.43% (from 1,144 kWh/FTE to 1,071 kWh/FTE),
- Heating oil reduction of 12.66% (from 112 kWh/FTE to 98 kWh/FTE),
- Photo-copy paper reduction 3.62% (from 44.69 kg/FTE to 43.08 kg/FTE).

Liability of suppliers

Erste Group sees its suppliers as partners in developing the sustainability of its operations. When choosing suppliers, we take care of sustainability and corporate social responsibility, and we choose companies that do business in line with world standards that include social and environmental impacts.

Erste Group Procurement (EGP) is Erste Group's company specialised in procurement. Our main objective is to ensure transparent and fair procurement and supply and such contracts. Meeting the needs of Erste Group for national and foreign goods and services, delivered in time and in accordance with quality requirements, under the best possible conditions, is the key element.
The suppliers of the Erste Group are required to meet the stipulated standards in the fields of business ethics, environmental protection and human rights.

In the fulfilment of the contractual obligations, we expect the following from the suppliers of materials, equipment and services chosen as our partners: respect of national and local laws and regulations, fulfilment of all legal obligations regarding the health and safety of their employees and contractors, strict compliance with environmental regulations, respecting and application of the fundamental principles of corporate social responsibility, protection of basic human and workers' rights, environmental protection, the promotion of health and safety, and decisive fight against corruption.
This is also expressed in the Supplier Code of Conduct, which is publicly available on the Erste Group Procurement website.

III. Environmental responsibility (continued)

Erste Group Procurement carries the CIPS Corporate Ethics Mark. This certificate is provided by the Chartered Institute of Procurement and Supply (CIPS). This certificate is issued to companies that have been dedicated to high standards of ethics and have proven that their employees are trained and doing business in line with them.
In the process of selecting suppliers at a strategic and operational level, sustainability is also taken into consideration. Along with an initial assessment, suppliers' operations are regularly reviewed, covering the most important or most vulnerable suppliers. At the operational level, filling of the audit questionnaire is required for each purchase worth more than EUR 100,000. The audit questionnaire refers to areas such as: the existence of an environmental management system, participation in the Carbon Disclosure Project (CDS), the existence of written environmental policy, methods of measuring CO_2 emissions, the existence of environmental targets, information on fines and penalties for violations of environmental regulations and description of the suppliers' supply chain.

In the case of the procurement of goods, the audit questionnaire is supplemented with questions on potentially hazardous chemicals, product recycling possibilities, end-of-life recovery, and *Energy Star* or similar standards.
It is our pleasure to point out that no actual or potential negative environmental impacts have been detected in the supply chain of Erste Group and no contract with a supplier has been terminated as a result of significant actual or potential negative environmental impact.

When selecting suppliers, we also address social aspects, and the questionnaire covers questions such as: child labour, elimination of all forms of forced labour, elimination of discrimination in the employment process, freedom of association and the right to collective negotiation, reasonable working hours and fair compensation, health care, work safety, job restructuring, salary, appropriate working conditions, and other important social criteria in the supply chain.

We can point out that none of the Group's suppliers has violated or threatened workers' rights to association and collective negotiations, nor have they been part of a risk group that exposes children or young people to dangerous work, or those at risk of forced labour.

We also encourage social responsibility through the selection of suppliers and the type of goods and services we use, including promotional marketing materials. Among other things, we often choose products that have an ecological certificate or are the final product of a socially responsible project involving marginalised groups of the society. For example, at the end of each year, we order holiday cards from SOS Children's Village Croatia, and not from commercial suppliers, and we thus encourage responsible business within the society and the community.

Corporate Governance Statement

The Bank pays special attention to corporate governance as the most significant determinant of its operations, which gives an impetus to the Management Board, the managers and the Supervisory Board in achieving interests and protecting both its shareholders and the Bank as a whole.

In order to establish high standards and achieve good rate governance, transparency in operations as the basis for the protection of shareholders, investors and other holders of interest, as well as to take care of employees and to support sustainable development and environment protection, the Bank applies Corporate Governance Principles (hereinafter: the Principles) to its business, adopted by the Management Board and the Supervisory Board of the Bank. The Principles are based on positive regulations of the Republic of Croatia and they ensure strategic governance of the Bank, efficient supervision over management and responsibilities of the Management Board and the Supervisory Board towards the Bank, its employees, clients and other interested parties; the Principles are published on the Bank's official website.

In its operations the Bank particularly complies with the following corporate governance principles:

- Transparency in operations;
- Protection of shareholders' rights;
- Clearly defined authorizations and responsibilities of the Bank's bodies;
- Cooperation between the Management Board and the Supervisory Board, transparent relationships among all the Bank's bodies, employees, shareholders, Bank's clients and the public as a whole;
- Efficient internal control system.

The Bank has ensured the integrity of the accounting system and financial reporting, adequate internal control systems, risk management system and the reliability of the information system covering all the major Bank's activities. In addition, the Bank hired an external auditor and has applied previous, current and subsequent financial supervision of the financial reporting and decision making process.

The accounting system, based on the International Accounting Standards and the International Financial Reporting Standards prescribed by the Accounting Policies of the Bank, is regulated by the Accounting Rules that define rights, obligations and responsibilities of all the participants, including the obligation of ongoing monitoring, while the functioning of the other systems is governed by special standard regulations.

The Bank's internal control system includes efficient direct monitoring through integrated procedures and processes set for monitoring the efficiency of the Bank's operations, reliability of financial reports and compliance with the laws and by-laws, as well as through fair business practice. The Bank's internal control system is established through parallel operating of three mutually independent functions:
(a) risk control function, (b) compliance monitoring function, and (c) internal audit function.

In subsidiaries of the Bank in which is necessary due to the activities performed by the company, size, importance and regulatory framework, the compliance function, risk control function and internal audit division is also established.

The main features of the Bank’s and subsidiaries’ internal control system are reflected in independent bearers of control functions responsible for the identification, assessment and risk management, including Risk control and Compliance function, while Internal Audit Division overseas the overall operations of the Bank and the Group to assess the adequacy of the established system of internal controls.

Code of Conduct of the Bank regulates the basic rules of business conduct of employees of the Bank in order to preserve and further expand the reputation of the banking sector and the Bank in society by promoting the idea of professionalism, responsibility and transparency of business activities.

Corporate Governance Statement (continued)

Furthermore, the Bank has adopted Diversity policy in the 2017. In accordance with Group principles, this policy outlines framework and guidelines and provides general principles and direction on integrating diversity management into corporate culture and business.

Regarding the risk relating to the financial reporting procedures, the main risk is that errors or deliberate actions (fraud) prevent facts from adequately reflecting the company's financial position and performance. This is the case whenever the data provided in the financial statements and notes is essentially inconsistent with the correct figures, i.e. whenever alone or in aggregate they apt to influence the decisions made by the users or financial statements. Such a decision may incur serious damage, such as financial loss, the imposition of sanctions by the banking supervisor or reputational harm.

Furthermore, especially estimates for the determination of the fair value of financial instruments for which no reliable market value is available estimates for the accounting of risk provisions for loans and advances for provisions, complex measurement requirements for accounting as well as difficult business environment bear the risk of significant financial reporting errors.

The Bank's share capital, fully subscribed, amounts to HRK 1,698,417,500.00 and is divided into 16,984,175 ordinary shares issued in dematerialized form, registered with the Central Depositary and Clearing Company under »RIBA-R-A« mark.
The nominal value of each share amounts to HRK 100.00 and entitles the holder to one vote at the Bank's General Meeting.

In order to improve the Bank's coordination and simplify the shareholder structure, indirect shareholders of the Bank, companies Erste Group Bank AG and Steiermärkische Bank und Sparkassen AG have decided to become direct shareholders, by taking over the Bank's shares from the company ESB Holding GmbH in the same percentage in which they had shares in the capital of stated company.
In accordance with the aforementioned, until December 30, 2015, all shares of the Bank held the company ESB Holding GmbH, and as of December 30, 2015, all shares of the Bank hold companies Erste Group Bank AG (59.02%) and Steiermärkische Bank und Sparkassen AG (40.98%).

General Meeting decides on all matters as required by relevant regulations and the Articles of Association of the Bank. General Meeting shall be called by the Management Board or by the Supervisory Board not less than once a year and when the interests of the Bank require it. The Bank's General Meeting decides on amendments to the Articles of Association by the majority of votes representing at least three quarters of the equity capital represented at the General Meeting.

On June 12, 2017 the Bank held its regular General Meeting at which a decision on Profit Distribution for the year 2016 was made. Net profit for 2016 amounts HRK 626,514,007.50 was distributed for the retained earnings in the amount of HRK 407,927,675.25 and for the shareholders' dividend in the amount of HRK 218,586,332.25. Total amount of dividend represents 34.89% of Erste&Steiermärkische bank d.d. net profit, and the dividend was determined in the amount of 12.87% of the nominal value of a share, amounting to HRK 12.87 per share.
The payment of dividend was effectuated as of July 11, 2017.

PricewaterhouseCoopers d.o.o. was appointed as the Bank's auditor for 2017, and the decisions on granting discharge to the Management Board and Supervisory Board members and on suitability of the Supervisory Board members were adopted, as well.

Corporate Governance Statement (continued)

Besides regular General Meeting, in 2017 the Bank held four extraordinary General Meeting as well.

At extraordinary General Meeting held on February 1, 2017 Decisions on suitability assessment of the candidate for the Supervisory Board, on election of the Supervisory Board's member and on adoption of the amendments of the Policy for the Bank Supervisory Board Members Selection and Suitability Assessment were made.

At extraordinary General Meeting held on May 5, 2017 Decision on determination of the remuneration for the Supervisory Board member was made.

At extraordinary General Meeting held on July 21, 2017 Decisions on suitability assessment of the candidate for the Supervisory Board, on election of the Supervisory Board's member, on determination of the remuneration for the Supervisory Board member, on adoption of the Suitability Policy and on Amendments of the Articles of Association of the Bank were made.

At extraordinary General Meeting held on November 24, 2017 Decisions on extraordinary suitability assessment of the member of the Supervisory Board Mr. Hrvoje Zgombić, on revocation of the member of the Supervisory Board Mr. Hrvoje Zgombić, on suitability assessment of the candidates for the Supervisory Board, on election of the members of the Supervisory Board and on determination of the remuneration for the member of the Supervisory Board were made.

The rules on the appointment and recall of the members of the Management Board and the Supervisory Board and their authorizations, as well as the data on the composition and operations of the Management Board, the Supervisory Board and relevant assistant bodies have been regulated by the Principles.

The members of the Management Board represent the Bank and operate the Bank's business on its own responsibility according to the Companies Act, the Credit Institutions Act and internal acts of the Bank. The Management Board has 5 (five) members. One member of the Management Board is appointed as the chairman of the Board. The Management Board conducts its activities and adopts its decisions and resolutions at the Meetings. The organization, operation and decision making of the Management Board are regulated by the Rules of Procedure of the Management Board.

Members of the Management Board are:

- Slađana Jagar, member of the Management Board,
- Borislav Centner, member of the Management Board,
- Christoph Schoefboeck, President of the Management Board,
- Martin Hornig, member of the Management Board,
- Zdenko Matak, member of the Management Board.

The Supervisory Board shall supervise the management of the Bank. The Supervisory Board has six (6) members. The members of the Supervisory Board are elected by the General Meeting.

Members of the Supervisory Board are:

- Willibald Cernko, President of the Supervisory Board,
- Sava Ivanov Dalbokov, Deputy Chairman of the Supervisory Board,
- Franz Kerber, member of the Supervisory Board,
- Hannes Frotzbacher, member of the Supervisory Board,
- Judit Agnes Havasi, member of the Supervisory Board,
- Renate Veronika Ferlitz, member of the Supervisory Board.

Corporate Governance Statement (continued)

The Supervisory Board conducts its activities at the Meetings. Summoning and holding meetings and process of making decisions and authorizations are prescribed by the Rules of procedure of the Supervisory Board. Supervisory Board has five (5) committees as follows: Audit Committee, Credit Committee, Remuneration Committee, Nomination Committee and Risk Committee which are established with the aim of making competent and independent judgements on all issues placed in their jurisdiction by the Bank's internal acts and the relevant regulations. Committee members are appointed from the members of the Supervisory Board and every Committee has three (3) members.

Audit Committee:

- Sava Ivanov Dalbokov, President
- Hannes Frotzbacher, Member
- Mario Catasta, Member

Remuneration Committee:

- Willibald Cernko, President
- Judit Ágnes Havasi, member
- Sava Ivanov Dalbokov, member

Nomination Committee:

- Willibald Cernko, President
- Judit Ágnes Havasi, member
- Sava Ivanov Dalbokov, member

Credit Committee:

- Hannes Frotzbacher, President
- Willibald Cernko, member
- Renate Veronika Ferlitz, member

Risk Committee:

- Hannes Frotzbacher, President
- Willibald Cernko, member
- Renate Ferlitz, member

Financial Statements for the year ended 31 December 2017

Erste&Steiermärkische Bank d.d.

Responsibility for the Financial Statements

Pursuant to the Croatian Accounting Law, the Management Board is responsible for ensuring that unconsolidated and consolidated financial statements are prepared for each financial year in accordance with International Financial Reporting Standards (IFRS) as published by International Accounting Standards Board (IASB) and adopted in the EU, which give a true and fair view of the financial position, results of operations and cash flow of Erste&Steiermärkische Bank d.d. together with its subsidiaries and associates (the Group) for that period as well as of Erste&Steiermärkische Bank d.d. (the Bank), separately.

In preparing those financial statements, the responsibilities of the Management Board include ensuring that:

- suitable accounting policies are selected and then applied consistently;
- judgments and estimates are reasonable and prudent;
- applicable accounting standards are followed, subject to any material departures disclosed and explained in the financial statements; and
- the financial statements are prepared on the going concern basis, unless it is inappropriate to presume that the Group and the Bank will continue in business.

The Management Board is responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Group and the Bank and must also ensure that the financial statements comply with the Croatian Accounting Law. The Management Board is also responsible for safeguarding the assets of the Group and the Bank and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

After making enquiries, the Management Board has a reasonable expectation that the Group and the Bank have adequate resources to continue in operational existence for the foreseeable future. For this reason, the Management Board continues to adopt the going concern basis in preparing the financial statements.

Responsibility for the Financial Statements (continued)

The Management Board

Christoph Schoefboeck
Chairman

Slađana Jagar
Member

Martin Hornig
Member

Borislav Centner
Member

Zdenko Matak
Member

Erste&Steiermärkische Bank d.d.
Jadranski trg 3a
51 000 Rijeka
Republic of Croatia

23 March 2018

Independent auditor's report

To the Shareholders and Management Board of Erste&Steiermärkische Bank d.d.

Report on the audit of the separate and consolidated financial statements

Our opinion

In our opinion, the separate and consolidated financial statements give a true and fair view of the separate and consolidated financial position of Erste&Steiermärkische Bank d.d. (the Bank) and its subsidiaries (the Group) as at 31 December 2017, and its separate and consolidated financial performance and separate and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Our opinion is consistent with our additional report to the Audit Committee.

What we have audited

The separate and consolidated financial statements of the Bank and the Group comprise:

- the separate and consolidated statements of financial position as at 31 December 2017;
- the separate and consolidated statements of comprehensive income for the year then ended;
- the separate and consolidated statements of changes in equity for the year then ended;
- the separate and consolidated statements of cash flows for the year then ended; and
- the notes to the separate and consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the separate and consolidated financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

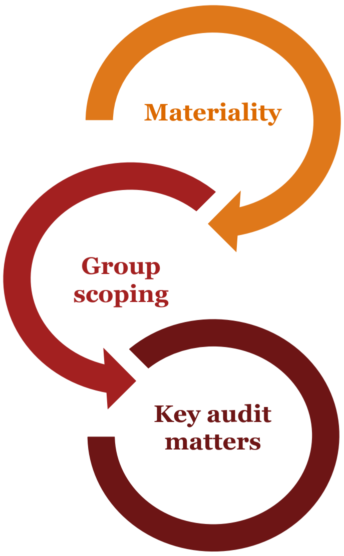
Independence

We are independent of the Bank and the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

To the best of our knowledge and belief, we declare that non-audit services that we have provided to the group and its subsidiaries are in accordance with the applicable law and regulations in the Republic of Croatia and that we have not provided non-audit services that are prohibited under Article 5(1) of Regulation (EU) No 537/2014.

Our audit approach

Overview



Materiality

- Overall materiality for the separate financial statements of the Bank: HRK 40 million, which represents 5% of profit before tax from continuing operations.
- Overall materiality for the consolidated financial statements of the Group: HRK 57 million, which represents 5% of profit before tax from continuing operations adjusted for non-recurring items in the amount of HRK 514 million, which represent the amount of an additional impairment provision for certain loan receivables and an additional impairment of an investment which are not expected to recur in the subsequent years.

Group scoping

- In establishing the overall approach to the group audit, we determined the type of work that needed to be performed by us, as the group engagement team, and component auditors operating under our instruction. Where the work was performed by component auditors, we determined the level of involvement we needed to have in the audit work at those components to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the Group financial statements as a whole.
- Our audit scope addressed 100% of the Group's absolute value of profit after tax and total assets.

Key Audit Matters

- Estimate of loss provision on loans to and receivables from customers

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the separate and consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. We also considered the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

2017 was the first year we were appointed as auditors of Erste&Steiermärkische Bank d.d. Since our appointment, we used the opportunity to meet with key members of the management of the Bank and the Group, internal auditor and risk management in order to obtain understanding of current business matters and to gather information that would enable us to plan our audit. We also met the prior year auditor and reviewed their working papers in order to understand on which controls they relied and what evidence they used to support their opinion. We used our information technology specialists to map the information and control systems of the Bank. These activities facilitated planning and performing the audit.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the separate and consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the separate and consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall group materiality for the separate and consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Overall separate and group materiality	The Bank: HRK 40 million The Group: HRK 57 million
How we determined it	The Bank: 5% of profit before tax from continuing operations The Group: 5% of profit before tax from continuing operations adjusted for non-recurring items in the amount of HRK 514 million, which represent the amount of an additional impairment provision for certain loan receivables and an additional impairment of an investment which are not expected to recur in the subsequent years.
Rationale for the materiality benchmark applied	The Bank: We chose profit before tax, because, in our view, it is the benchmark against which the performance of the Bank is commonly measured by users and shareholders, and is a generally acceptable benchmark. The Group: We chose profit before tax and adjusted it for non-recurring items in order to achieve comparability with the materiality of the Bank.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the separate and consolidated financial statements of the current period. These matters were addressed in the context of our audit of the separate and consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	*How our audit addressed the key audit matter*
Estimate of loss provisions for loans to and receivables from customers (the Bank and the Group) Refer to note *Impairment of financial assets and credit risk losses of contingent liabilities* in Section B *Significant accounting policies*, note c) *Accounting and measurement methods*. As at 31 December 2017, the Bank and Group had loan loss provisions for loans to and receivables from customers of HRK 3.1 billion and HRK 4.1 billion respectively. IFRS requires management to make judgments about the future and various items in the separate and consolidated financial statements are subject to estimation uncertainty. The estimates required for loss provisions for loans to and receivables from customers are significant estimates. The identification of loans that are deteriorating, the assessment of objective evidence of impairment, the value of collateral, forecasts of future cash flows and the determination of the recoverable amount of loans are all inherently uncertain. The Bank and the Group recognize portfolio provisions for loans, which are not individually significant, and a provision for impairment losses incurred but not yet reported or identified with a specific loan. In addition, the Bank and the Group recognize provisions for specific loan receivable by estimating recoverable amount based on future estimated cash flows, including the cash flows from collaterals. We focused on this area during the audit due to the significance of the amounts involved for the separate and consolidated financial statements and also because of the nature of the judgements and assumptions that management are required to make.	Our audit approach was the following: • We verified that the Bank's and Group's methodology for estimating loan loss provisions was appropriate and was being applied consistently; • We assessed and tested the design, implementation, and operating effectiveness of the controls related to the timely identification of impaired loans, and performed an independent validation of the models used by management for calculation of loan loss provisions; • We examined a sample of individually significant loan exposures, in order to test loan loss provisions calculated on an individual basis; • We considered management's assumptions, including forecasts of future cash flows, valuation of underlying collateral and estimates of recovery on default; • We assessed the underlying models, reasonableness of assumptions, and completeness and accuracy of the underlying data, which were used by the Bank and the Group to estimate portfolio loan loss provisions for loans that share similar credit risk characteristics; • We assessed prior year auditor's procedures that have been performed over the loan loss provisions and conclusions reached to confirm that opening balance does not contain material misstatement. Our audit did not lead to any material adjustments to the loan loss provisions at 31 December 2017.

How we tailored our separate and group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the separate and consolidated financial statements as a whole, taking into account the geographic and management structure of the Bank and the Group, the accounting processes and controls, and the industry in which the Bank and the Group operate.

As at 31 December 2017, the Group consists of the parent company, Erste&Steiermärkische Bank d.d. and 7 direct subsidiaries of which one subsidiary operates in a foreign country. We audited the parent company and four domestic subsidiaries and performed review procedures on two domestic direct subsidiaries. We worked with other PwC network firm in relation to the audit of a foreign subsidiary of the Group.

Considering our ultimate responsibility for the opinion of the separate and consolidated financial statements, we are responsible for the direction, supervision and performance of the group audit. In this context, we determined the nature and extent of the audit procedures for the components of the Group to ensure that we performed sufficient work to enable us to provide an opinion on the separate and consolidated financial statements as a whole.

Overall, our audit and review procedures covered 100% of the Group in respect of interest income, profit after tax and total assets.

Reporting on other information including the Management Report and Corporate Governance Statement

Management is responsible for the other information. The other information includes the Management Report and Corporate Governance Statement (but does not include the separate and consolidated financial statements and our auditor's report thereon) which we obtained prior to the date of this auditor's report.

Our opinion on the separate and consolidated financial statements does not cover the other information, including the Management Report and Corporate Governance Statement.

In connection with our audit of the separate and consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the separate and consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

With respect to the Management Report and Corporate Governance Statement, we also performed procedures required by the Accounting Act in Croatia. Those procedures include considering whether the Management Report includes the disclosures required by Article 21 and 24 of the Accounting Act, and whether the Corporate Governance Statement includes the information specified in Article 22 of the Accounting Act.

Based on the work undertaken in the course of our audit, in our opinion:

- the information given in the Management Report and the Corporate Governance Statement for the financial year for which the consolidated financial statements are prepared is consistent, in all material respects, with the consolidated financial statements;
- the Management Report has been prepared in accordance with the requirements of Article 21 and 24 of the Accounting Act; and
- the Corporate Governance Statement includes the information specified in Article 22 of the Accounting Act.

In addition, in light of the knowledge and understanding of the entity and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the Management Report and the Corporate Governance Statement and other information that we obtained prior to the date of this auditor's report. We have nothing to report in this respect.

Responsibilities of management and those charged with governance for the separate and consolidated financial statements

Management is responsible for the preparation and fair presentation of the separate and consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of separate and consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the separate and consolidated financial statements, management is responsible for assessing the Bank's and Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank and the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's and the Group's financial reporting process.

Auditor's responsibilities for the audit of the separate and consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the separate and consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these separate and consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the separate and consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's and Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's and Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the separate and consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank and the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the separate and consolidated financial statements, including the disclosures, and whether the separate and consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the separate and consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

Appointment

We were appointed as auditors of the Bank by the General Assembly as of 12 June 2017. This represents a first year of audit.

Other Legal and Regulatory Requirements

Based on the Decision on the structure and content of annual financial statements of credit institutions (Official Gazette 30/17 and 44/17), "Decision"), the Management Board of the Bank prepared the forms presented on pages 230 to 245 (the "Forms"), which are entitled the Statements of financial position of the Bank and the Group as at 31 December 2017, the Income statements of the Bank and the Group, the Statements of changes in shareholders' equity of the Bank and the Group and the Cash flow statements of the Bank and the Group for the year then ended, together with information to reconcile the Forms to the Bank's and the Group's financial statements. The Bank's management is responsible for the preparation of the Forms and information on reconciliation. They do not represent an integral part of the financial statements, but contain information required by the Decision. The financial information in the Forms is based on the Bank's and the Group's financial statements prepared in accordance with International Financial Reporting Standards as adopted by the European Union as presented on pages 69 to 229, adjusted for the purposes of the Decision.

The engagement partner on the audit resulting in this independent auditor's report is Siniša Dušić.

PricewaterhouseCoopers d.o.o.

PricewaterhouseCoopers d.o.o.
Heinzelova 70, Zagreb
23 March 2018

I. Statement of Comprehensive Income for the Year ended 31 December 2017

Statement of Profit or Loss

in HRK million		GROUP		BANK	
	Notes	2016	2017	2016	2017
Net interest income	1	2,060	2,071	1,582	1,656
Interest income		2,911	2,624	2,314	2,112
Interest expense		(851)	(553)	(732)	(456)
Net fee and commission income	2	663	715	410	445
Fee and commission income		865	937	560	610
Fee and commission expenses		(202)	(222)	(150)	(165)
Dividend income	3	1	1	31	25
Net trading and fair value result	4	222	199	212	202
Net result from equity method investments		9	10	-	-
Rental income from investment properties & other operating leases	5	178	147	2	2
Personnel expenses	6	(635)	(668)	(453)	(487)
Other administrative expenses	6	(593)	(644)	(431)	(467)
Depreciation and amortisation	6	(236)	(228)	(42)	(58)
Gains/losses from financial assets and liabilities not measured at fair value through profit or loss, net	7	65	5	50	3
Net impairment loss on financial assets not measured at fair value through profit or loss	8	(364)	(866)	(363)	(440)
Other operating result	9	(157)	(102)	(167)	(70)
Pre-tax result from continuing operations		**1,213**	**640**	**831**	**811**
Taxes on income	10	(300)	(183)	(204)	(162)
Net result for the period		**913**	**457**	**627**	**649**
Net result attributable to non-controlling interests		38	(77)	-	-
Net result attributable to owners of the parent		**875**	**534**	**-**	**-**
Earnings per share					
Basic and diluted (HRK)	42	**51.48**	**31.42**	**-**	**-**

Statement of Other Comprehensive Income

in HRK million	GROUP		BANK	
	2016	2017	2016	2017
Net result for the period	**913**	**457**	**627**	**649**
Other comprehensive income				
Items that may not be reclassified to profit or loss				
Remeasurement of net liability of defined pension plans	-	-	-	-
Deferred taxes relating to items that may not be reclassified	-	-	-	-
Total	**-**	**-**	**-**	**-**
Items that may be reclassified to profit or loss				
Available for sale reserve (including currency translation)	(43)	(20)	(50)	(21)
Gain/loss during the period	22	(19)	-	(22)
Reclassification adjustments	(65)	(1)	(50)	1
Currency translation	(4)	(2)	-	-
Gain/loss during the period	(4)	(2)	-	-
Reclassification adjustments	-	-	-	-
Deferred taxes relating to items that may be reclassified	15	4	16	4
Gain/loss during the period	15	4	16	4
Reclassification adjustments	-	-	-	-
Total	**(32)**	**(18)**	**(34)**	**(17)**
Total other comprehensive income	**(32)**	**(18)**	**(34)**	**(17)**
Total comprehensive income	**881**	**439**	**593**	**632**
Total comprehensive income attributable to non-controlling interests	38	(77)	-	-
Total comprehensive income attributable to owners of the parent	**843**	**516**	**-**	**-**

II. Statement of Financial Position as at 31 December 2017

in HRK million		GROUP		BANK	
	Notes	31 December 2016	31 December 2017	31 December 2016	31 December 2017
Assets					
Cash and cash balances	11	4,388	4,639	3,737	4,170
Financial assets - held for trading		73	247	76	250
Derivatives	12	73	52	76	55
Other trading assets	13	-	195	-	195
Financial assets - available for sale	14	7,832	8,018	7,254	7,468
thereof pledged as collateral	32	297	250	-	-
Financial assets - held to maturity	15	1,653	1,878	1,137	1,391
Loans to and receivables from credit institutions	17	5,329	5,233	5,320	5,132
Loans to and receivables from customers	18	43,656	43,297	36,254	36,512
Property and equipment	20	1,309	1,262	548	583
Investment properties	20	59	53	36	20
Intangible assets	21	390	393	110	111
Investments in subsidiaries	19	-	-	972	951
Investments in associates	19	59	60	38	38
Current tax assets	22	30	17	10	-
Deferred tax assets	22	219	234	90	88
Other assets	23	607	594	537	492
Total assets		**65,604**	**65,925**	**56,119**	**57,206**
Liabilities and equity					
Financial liabilities - held for trading		77	52	76	52
Derivatives	12	77	52	76	52
Financial liabilities measured at amortised cost		56,687	56,632	48,720	49,235
Deposits from banks	24	11,652	11,025	6,341	6,394
Deposits from customers	24	43,323	44,374	41,298	42,307
Debt securities issued	24	924	376	924	376
Other financial liabilities	24	788	857	157	158
Provisions	25	260	267	216	212
Current tax liabilities	22	12	139	-	132
Deferred tax liabilities	22	2	2	-	-
Other liabilities	26	578	627	378	433
Total liabilities		**57,616**	**57,719**	**49,390**	**50,064**
Subscribed capital		1,698	1,698	1,698	1,698
Capital reserves and share premium		1,887	1,887	1,887	1,887
Retained earnings		3,906	4,221	2,912	3,342
Other reserves		262	244	232	215
Equity attributable to owners of the parent		7,753	8,050	-	-
Equity attributable to non-controlling interests		235	156	-	-
Total equity	27	**7,988**	**8,206**	**6,729**	**7,142**
Total liabilities and equity		**65,604**	**65,925**	**56,119**	**57,206**

III. Statement of Changes in Equity

GROUP

in HRK million	Subscribed capital	Capital reserves and share premium	Retained earnings	Available for sale reserve	Currency translation	Remeasurement of net liability of defined pension plans	Deferred tax	Equity attributable to owners of the parent	Equity attributable to non-controlling interests	Total equity
As at 1 January 2017	**1,698**	**1,887**	**3,906**	**323**	**(1)**	**(2)**	**(58)**	**7,753**	**235**	**7,988**
Dividends paid	-	-	(219)	-	-	-	-	(219)	(2)	(221)
Total comprehensive income	-	-	534	(20)	(2)	-	4	516	(77)	439
Net result for the period	-	-	534	-	-	-	-	534	(77)	457
Other comprehensive income	-	-	-	(20)	(2)	-	4	(18)	-	(18)
As at 31 December 2017	**1,698**	**1,887**	**4,221**	**303**	**(3)**	**(2)**	**(54)**	**8,050**	**156**	**8,206**
As at 1 January 2016	**1,698**	**1,887**	**3,031**	**366**	**3**	**(2)**	**(73)**	**6,910**	**201**	**7,111**
Dividends paid	-	-	-	-	-	-	-	-	(5)	(5)
Acquisition of additional shares in subsidiaries	-	-	-	-	-	-	-	-	1	1
Total comprehensive income	-	-	875	(43)	(4)	-	15	843	38	881
Net result for the period	-	-	875	-	-	-	-	875	38	913
Other comprehensive income	-	-	-	(43)	(4)	-	15	(32)	-	(32)
As at 31 December 2016	**1,698**	**1,887**	**3,906**	**323**	**(1)**	**(2)**	**(58)**	**7,753**	**235**	**7,988**

BANK

in HRK million	Subscribed capital	Capital reserves and share premium	Retained earnings	Available for sale reserve	Currency translation	Remeasurement of net liability of defined pension plans	Deferred tax	Equity attributable to owners of the parent	Equity attributable to non-controlling interests	Total equity
As at 1 January 2017	**1,698**	**1,887**	**2,912**	**282**	**-**	**1**	**(51)**	**-**	**-**	**6,729**
Dividends paid	-	-	(219)	-	-	-	-	-	-	(219)
Total comprehensive income	-	-	649	(21)	-	-	4	-	-	632
Net result for the period	-	-	649	-	-	-	-	-	-	649
Other comprehensive income	-	-	-	(21)	-	-	4	-	-	(17)
As at 31 December 2017	**1,698**	**1,887**	**3,342**	**261**	**-**	**1**	**(47)**	**-**	**-**	**7,142**
As at 1 January 2016	**1,698**	**1,887**	**2,285**	**332**	**-**	**1**	**(67)**	**-**	**-**	**6,136**
Dividends paid	-	-	-	-	-	-	-	-	-	-
Total comprehensive income	-	-	627	(50)	-	-	16	-	-	593
Net result for the period	-	-	627	-	-	-	-	-	-	627
Other comprehensive income	-	-	-	(50)	-	-	16	-	-	(34)
As at 31 December 2016	**1,698**	**1,887**	**2,912**	**282**	**-**	**1**	**(51)**	**-**	**-**	**6,729**

IV. Statement of Cash Flow for the year ended 31 December 2017

in HRK million	GROUP		BANK	
	2016	2017	2016	2017
Net result for the period	**913**	**457**	**627**	**649**
Non-cash adjustments for items in net profit/loss for the year				
Depreciation, amortisation, impairment and reversal of impairment, revaluation of assets	378	262	177	107
Allocation to and release of provisions (including risk provisions)	(1,228)	874	(1,208)	436
Gains/(losses) from the sale of assets	(3)	3	-	(2)
Income tax expense	300	183	204	162
Other adjustments	40	(2)	(1)	6
Changes in assets and liabilities from operating activities after adjustment for non-cash components	**(513)**	**1,320**	**(828)**	**709**
Financial assets - held for trading	172	(195)	168	(195)
Financial assets - at fair value through profit or loss	-	-	-	-
Financial assets - available for sale	(1,036)	(48)	(843)	(75)
Financial assets - held to maturity	(243)	(240)	(267)	(269)
Loans to and receivables from credit institutions	(469)	505	(559)	593
Loans to and receivables from customers	2,927	(464)	3,001	(693)
Derivatives	(38)	(5)	(39)	(3)
Other assets from operating activities	(107)	(11)	(33)	24
Financial liabilities measured at amortised cost				
Deposits from banks	(4,568)	(639)	(4,240)	53
Deposits from customers	1,879	1,028	1,644	1,009
Debt securities issued	(6)	(548)	(6)	(548)
Other financial liabilities	93	69	94	4
Other liabilities from operating activities	(177)	46	(186)	55
Cash flow from operating activities	**(1,173)**	**1,275**	**(1,467)**	**1,313**
Proceeds from disposal				
Property and equipment, intangible assets and investment properties	162	85	8	19
Acquisition of				
Property and equipment, intangible assets and investment properties	(487)	(278)	(89)	(97)
Acquisition of subsidiaries (net of cash and cash equivalents acquired)	2	(14)	-	-
Investments in associates	-	(41)	-	(29)
Cash flow from investing activities	**(323)**	**(248)**	**(81)**	**(107)**
Dividends paid to equity holders of the parent	-	(219)	-	(219)
Dividends paid to non-controlling interests	(6)	(2)	-	-
Cash flow from financing activities	**(6)**	**(221)**	**-**	**(219)**
Cash and cash equivalents at beginning of period	**6,041**	**4,539**	**5,435**	**3,887**
Cash flow from operating activities	(1,173)	1,257	(1,467)	1,313
Cash flow from investing activities	(323)	(248)	(81)	(107)
Cash flow from financing activities	(6)	(221)	-	(219)
Cash and cash equivalents at end of period[1)]	**4,539**	**5,345**	**3,887**	**4,874**
Cash flows related to taxes, interest and dividends (included in cash flow from operating activities)				
Payments for taxes on income	(11)	(61)	-	(20)
Interest received	2,907	2,593	2,413	2,152
Dividends received	10	9	30	24
Interest paid	(746)	(622)	(631)	(545)

1) Cash and cash equivalents are equal to cash in hand and equivalents held with central banks and placements with banks with original maturity up to 3 months (Note 11).

V. Notes to the Financial Statements

A. GENERAL INFORMATION

HISTORY AND INCORPORATION

Erste&Steiermärkische Bank d.d. (the Bank) was established in 1954 and was entered into the Court Register as a joint stock company on 24 January 1990. The Bank's registered head office is at Jadranski trg 3a, Rijeka, the Republic of Croatia.
The Bank is a holding company for the Erste Bank Croatia Group (the Group) which has operations in the Republic of Croatia, Republic of Montenegro, Republic of Macedonia and Slovenia.

These financial statements comprise both the separate financial statements of the Bank and the consolidated financial statements of the Group (together financial statements).

PRINCIPAL ACTIVITIES OF THE BANK

The Bank is licensed to conduct commercial banking activities in the Republic of Croatia. The Bank's main operations are as follows:

- accepting deposits from the clients and deposits placement,
- granting loans, issuing guarantees and letters of credit to the individuals, companies, public and other clients,
- treasury operations in the interbank market,
- trust management and investment banking services,
- performing domestic and international payments,
- providing banking services through an extensive branch network in the Republic of Croatia.

SUPERVISORY BOARD

Williblad Cernko	President
Sava Ivanov Dalbokov	Deputy President
Mag. Franz Kerber	Member
Hannes Frotzbacher	Member
Dr. Judit Agnes Havasi	Member
Mag. Renate Veronika Ferlitz	Member

MANAGEMENT BOARD

The Bank is represented jointly by two members of the Management Board or by one member of the Management Board together with the procurator.

Christoph Schoefboeck	President
Borislav Centner	Member
Slađana Jagar	Member
Zdenko Matak	Member
Martin Hornig	Member

A. GENERAL INFORMATION (CONTINUED)

PROCURATORS:

The Bank at the moment does not have procurators.

The Bank's share capital, fully subscribed, amounts to HRK 1,698,417,500.00 and is divided into 16,984,175 ordinary shares. All shares of the Bank hold companies Erste Group Bank AG (10,023,326 shares or 59.02%) and Steiermärkische Bank und Sparkassen AG (6,960,849 shares or 40.98%).

DEFINITION OF THE CONSOLIDATED GROUP

The Bank is a parent company of the banking group (the Group) which includes the following subsidiaries and associates consolidated in the financial statements:

Name of subsidiary	Note	Ownership interest	Principal activity	Registered office
Erste Nekretnine d.o.o.	19	100%	Real estate business	Ivana Lučića 2A, Zagreb
Erste Bank a.d. Podgorica, Montenegro	19	100%	Credit institution	Arsenija Boljevića 2A, Podgorica, Montenegro
Erste Card Club d.o.o. za financijsko posredovanje i usluge	19	100%	Financial intermediation and services	Ulica Frana Folnegovića 6, Zagreb
Erste Card d.o.o. Slovenia	19	100%	Financial intermediation and services	Dunajska cesta 129, Ljubljana, Slovenija
Diners Club International Mak d.o.o.e.l., Skopje	19	100%	Financial intermediation and services	Kej 13-ti Noemvri, 2/2 GTC, Skopje
Erste Factoring d.o.o. za factoring	19	74.996%	Accounts receivables repurchase	Ivana Lučića 2A, Zagreb
Erste&Steiermärkische S-Leasing d.o.o.	19	50%	Financial and operating leasing	Zelinska 3, Zagreb
Izbor Nekretnina d.o.o.	19	100%	Real estate management and lease	Ivana Lučića 2, Zagreb
Erste Group IT HR d.o.o.	19	80%	IT engineering	Jurja Haulika 19/A, Bjelovar
Name of associate				
S Immorent Zeta d.o.o.	19	49%	Real estate business	Ivana Lučića 2A, Zagreb
Erste d.o.o.- društvo za upravljanje obveznim i dobrovoljnim mirovinskim fondovima	19	45.86%	Management company for obligatory and voluntary pension fund	Ivana Lučića 2A, Zagreb

Acquisitions

On 9 March 2017 subsidiary Erste Card Club d.o.o., Zagreb acquired 100 % of stake ownership in the companies Diners Club International Belgrade d.o.o., Belgrade, Republic of Serbia for cash consideration in the amount of HRK 35 million and Diners Club International MAK d.o.o.e.l., Skopje, Republic of Macedonia for cash consideration in the amount of HRK 15 million. On 14 March 2017 re-capitalization of the Diners Club International Belgrade d.o.o. was carried out in the amount of HRK 4 million.

After the acquisition, material irregularities in the financial operations of the Diners Club International Belgrade d.o.o. were revealed and the insolvency procedure against the Company has been opened on 16 June 2017 and is still going on. This cost of acquisition and re-capitalisation amount was impaired in full amount in 2017.

A. GENERAL INFORMATION (CONTINUED)

For acquisition in Diners Club International MAK d.o.o.e.l. initial goodwill was recognized in the amount of HRK 4 million that was 100 % impaired. Detailed information is noted in Accounting and measurement methods under Business combination and Goodwill.

On 12 April 2016 the Bank acquired additional 60% of shares in Erste Group IT HR d.o.o. increasing its ownership to 80%. Detailed information is noted in Accounting and measurement methods under Business combination and Goodwill.

Capital increase

At the beginning 2017 the Bank increase capital in associate Immokor Buzin in amount of HRK 18 million and sold whole investment for EUR 1. In December 2017 Bank also increase capital in associate Immorent Zeta in amount of HRK 12 million. For both investments in associates capital increase was immediately impaired in Statement of profit or loss.

On 13 April 2016 the Bank increased capital reserves in non-consolidated subsidiary Izbor Nekretnina d.o.o. in amount of HRK 38 million. From that date Izbor Nekretnine d.o.o. started their business actively and the Bank decided to consolidate them in the Group financial statements.

B. SIGNIFICANT ACCOUNTING POLICIES

a) BASIS OF PREPARATION

The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as published by IASB and adopted in the EU, under the historical cost convention modified by the revaluation of appropriate financial assets and liabilities. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services. Fair value is the price that would be received to sell an asset or transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date.
For financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurements in its entirety, which are described in note 35 Fair value of assets and liabilities.
The financial statements are presented in millions of local currency – Croatian Kuna (HRK) which is the functional and presentation currency of the Bank and the Group, unless otherwise indicated.
The financial statements are prepared on an accrual basis of accounting, under the going concern assumption.
The preparation of financial statements in conformity with IFRS requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and their reported amounts of revenues and expenses during the reporting period. These estimates are based on the information available at the financial position date and actual results could differ from those estimates.
The Bank maintains its books of accounts in accordance with the regulations of the statutory accounting requirements for banks in Croatia. The accompanying financial statements are based on the accounting records of the Bank and its subsidiaries, together with appropriate adjustments and reclassifications necessary for the fair presentation in accordance with IFRS as adopted in the EU.

b) BASIS OF CONSOLIDATION

The consolidated financial statements incorporate the financial statements of the Bank and entities controlled by the Bank (subsidiaries) together with the Group's share in associates.

Subsidiaries

Subsidiaries are entities over which the Group has control. Control is achieved when the bank is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement profit or loss from the effective date on which control commences or up to the effective date when control ceases, as appropriate.

b) BASIS OF CONSOLIDATION (continued)

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group. All intra-group transactions, balances, income and expenses are eliminated on consolidation.
Non-controlling interest represents the portion of profit or loss and net assets of subsidiaries not owned, directly or indirectly, by the Bank. Non-controlling interest is presented separately in the Group's statement of profit or loss and within equity in the Group's statement of financial position, separately from parent shareholders' equity. Any losses applicable to the non-controlling interest in excess of the non-controlling interest are allocated against the interests of the non-controlling interest even if this results in the non-controlling interest having a deficit balance.

Accounting for investments in subsidiaries in the separate financial statements of the Bank

Investments in subsidiaries are accounted at cost in the separate financial statements of the Bank less any impairment.

Investments in associates

An associate is an entity over which the Group has significant influence but no control. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The results, assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. Under the equity method, investments in associates are carried in the consolidated statement of financial position at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of an associate in excess of the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate) are not recognized, unless the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognized at the date of acquisition is recognized as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognized in statement of profit or loss.

Accounting for investments in associates in the separate financial statements of the Bank

Investments in associates are accounted at cost in the separate financial statements of the Bank less any impairment.

c) ACCOUNTING AND MEASUREMENT METHODS

Foreign currency translation

Transactions denominated in foreign currencies are translated into HRK at the prevailing exchange rates on the date of the transaction.
Monetary items denominated in foreign currencies are translated into HRK at the appropriate spot rates of exchange prevailing at the financial position date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not translated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are included in statement of profit or loss for the period in Net trading and fair value result. Exchange differences arising on the translation of non-monetary assets carried at fair value are included in statement of profit or loss for the period except for exchange differences arising on the translation of non-monetary assets available for sale in respect of which gains and losses are recognized directly in equity. For such non-monetary items, any exchange component of that gain or loss is also recognized directly in other comprehensive income.

The assets and liabilities of foreign operations (foreign subsidiaries) are translated into HRK, at the rate of exchange as at statement of financial position date. The income and expense are translated at average exchange rates calculated on the basis of daily rates. Goodwill, intangible assets recognised on acquisition of foreign subsidiaries and fair value adjustments to the carrying amounts of assets and liabilities on acquisition are treated as asset and liabilities of the foreign subsidiaries and are translated at closing date. Exchange differences arising on translation are recognised in other comprehensive income. On disposal of foreign subsidiary, the cumulative amount of translation differences recognised in other comprehensive income is recognised in the income statement under the line item Other operating result.

The principal rates of exchange set forth by the CNB and used in the preparation of the Group and the Bank's statement of financial position at the reporting dates were as follows:

31 December 2017	EUR 1=HRK 7.513648	USD 1=HRK 6.269733	CHF 1=HRK 6.431816
31 December 2016	EUR 1=HRK 7.557787	USD 1=HRK 7.168536	CHF 1=HRK 7.035735

Financial instruments – recognition and measurement

A financial instrument is any contract giving rise to a financial asset of one party and a financial liability or equity instrument of another party. In accordance with IAS 39, all financial assets and liabilities – which also include derivative financial instruments – have to be recognised on the statement of financial position and measured in accordance with their assigned categories.

The Bank and the Group use the following categories (classes) of financial instruments:
- financial assets or financial liabilities at fair value through profit or loss (with two subcategories financial asset or liabilities – held for trading and financial asset or liabilities designated at fair value through profit or loss)
- available-for-sale financial assets
- held-to-maturity investments
- loans and receivables
- financial liabilities measured at amortised cost

IAS 39 categories of financial instruments are not necessarily the line items presented on the statement of financial position. Relationships between the statement of financial position line items and categories of financial instruments are described in the table at point (x).

Financial instruments – recognition and measurement (continued)

(i) Initial recognition
Regular way (spot) purchase and sales of financial assets are recognized at settlement date, which is the date when an asset is delivered. Applying settlement date accounting, the financial instruments are recognized at trade date only in the off balance sheet and are fair valued until settlement date with effects of fair value changes recognized in profit or loss in case of financial assets at fair value through profit or loss or in OCI in case of available-for-sale financial assets. Loans and receivables are initially recognised on the date at which they are originated. All other financial assets and liabilities (derivatives) are recognised on trade date at which the Group becomes a party to the contractual provisions of the instrument. The classification of financial instruments at initial recognition depends on their characteristics as well as the purpose and management's intention for which the financial instruments were acquired. Financial instruments are measured initially at their fair value including transaction costs. In the case of financial instruments at fair value through profit or loss, however, transaction costs are not included but are recognised directly in profit or loss. Subsequent measurement is described in the chapters below.

(ii) Cash and cash balances
Cash balances include cash on hand and claims (deposits) against central banks and credit institutions that are repayable on demand. Repayable on demand means that they may be withdrawn at any time or with a term of notice of only one business day or 24 hours.
Cash and cash equivalents are equal to cash in hand and deposits held with central banks and placements with banks with original maturity up to 3 months. Cash and cash equivalents are measured at amortized cost.

(iii) Derivative financial instruments
In the normal course of business the Group enters into derivative financial instruments to manage currency, liquidity and interest rate risks and such financial instruments are classified as Financial assets or liabilities - held for trading - Derivatives. Derivatives entered into by the Group includes foreign currency forwards, swaps and interest rate swaps.
Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative. Changes in the fair value of derivatives are included in Net trading and fair value result. Fair values are principally obtained from discounted cash flow models and option pricing models as appropriate.
Certain derivative transactions, while providing effective economic hedges under the Group's risk management positions, are treated as derivatives in Banking book with fair value gains and losses reported in the statement of profit or loss lines Net trading and fair value result and Net interest income. Interest expense accrued on sold notional amount and interest income accrued on bought notional amount are included in Net interest income. Net trading and fair value result includes all remaining effects from foreign currency changes and changes from market interest rates which influence fair value.

(iv) Financial assets or financial liabilities – held for trading
Financial assets or financial liabilities – held for trading comprise derivatives and other trading assets and liabilities. Treatment of derivatives – held for trading is discussed above in (iii).
Other trading assets and liabilities are non-derivative instruments. They include debt securities as well as equity instruments acquired or issued principally for the purpose of selling or repurchasing in the near term. In the statement of financial position, they are presented as Other trading assets or Other trading liabilities under the heading Financial assets or financial liabilities – held for trading.
Changes in fair value (clean price for debt instruments) resulting from other trading assets and liabilities are reported in the statement of profit or loss under the line item Net trading and fair value result. Interest income and expenses are reported in the statement of profit or loss under the line item Net interest income. Dividend income is shown under the line item Dividend income.

Financial instruments – recognition and measurement (continued)

(v) Financial assets or financial liabilities designated at fair value through profit or loss
Financial assets or financial liabilities classified in this category are those that have been designated by management on initial recognition (fair value option).
Upon initial recognition the Group shall designate financial asset or liability at fair value through profit or loss only when doing so results in more relevant information, because either:

- it eliminates or significantly reduces a measurement or recognition inconsistency (accounting mismatch) that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases,
- a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the Bank's management,
- the contract contains one or more embedded derivative which is not closely related and significantly modifies the cash flows of the underlying financial instrument.

At any subsequent time, assets and liabilities are measured at fair value with changes in fair value (clean price) recognized in the profit or loss. Gains and losses from trading securities, changes in the fair value of financial assets or liabilities classified in this portfolio, as well as the exchange rate gains/losses, are recorded in the statement of profit or loss in the respective period, in net amount.

(vi) Financial assets – available for sale
Financial assets classified as available for sale are those non-derivative financial assets which are neither classified as held for trading, designated at fair value through profit or loss, loans and receivables nor held to maturity financial investments. Available-for-sale assets include debt instruments and equity instruments.
Financial instruments in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.
Available for sale financial assets are recognised at settlement date at fair value increased by directly attributable transaction cost. After initial recognition, subsequent measurement is at fair value.
Unrealized gains or losses (changes in fair value – clean price) are recognized in Other comprehensive income (OCI) until the financial asset is disposed of or impaired when the cumulative gain or loss previously recognized in OCI is reclassified to profit or loss.
Interest income on available for sale debt instruments is recognised in profit or loss by using effective interest rate method. Foreign exchange differences on debt instruments are also recognized in profit or loss.
Dividend income on equity instruments is recognized in profit or loss, while foreign exchange differences are recognized in OCI.
Equity instruments which do not have a quoted market price and whose fair value cannot be reasonably determined are carried at cost (acquisition) less impairment.

(vii) Financial assets – held to maturity
Non - derivative financial assets with fixed or determinable future cash flows and fixed maturities which are quoted in an active market are reported within this category if the Group has the positive intent and ability to hold them until maturity and which do not meet definition of Loans and Receivables according to IAS 39. After the initial recognition, subsequent measurement is at amortised cost using the effective interest rate. The premium, discount and initial transaction costs are included in the carrying amount of a financial instrument and amortised in profit or loss at the effective interest rate method.

Financial instruments – recognition and measurement (continued)

The Group shall not classify any financial assets as held to maturity if during the current financial year or during the two preceding financial years the Group has sold or reclassified more than an insignificant amount (in relation to the total amount of held to maturity investments) of held to maturity investments before maturity, except in the following cases:

- the sales is so close to maturity or the financial asset's call date (less than three months before maturity) that changes in the market rate of interest would not have a significant effect on the financial asset's fair value
- the sales occur after the entity has collected substantially all of the financial asset's original principal through scheduled payments or prepayments; or
- the sales are attributable to an isolated event that is beyond the Bank's control, is non-recurring and could not have been reasonably anticipated by the entity (for example, significant deterioration in the issuer's creditworthiness).

The Group assesses the intent and the ability to hold the asset to maturity at the date of acquisition and at every financial position date.
Interest earned on financial assets held to maturity is reported in the profit or loss under the line item Net interest income. Losses arising from impairment of such financial assets are presented as Net impairment loss on financial assets. Occasional realised gains or losses from selling are recognised in the statement of profit or loss under the line item Gains/losses on financial assets and liabilities not measured at fair value through profit or loss, net.

(viii) Loans and receivables
The statement of financial position line item Loans to and receivables from credit institutions includes financial instruments which are allocated to financial instrument category Loans and receivables with a contractual maturity more than 24 hours. The statement of financial position line item Loans to and receivables from customers include financial assets meeting the definition of Loans and receivables. Furthermore, finance lease receivables that are accounted for using IAS 17 are presented under these statement of financial position line items.

Loans and receivables are non-derivative financial assets (including debt securities) with fixed or determinable payments that are not quoted in an active market, other than:

- Loans and receivables that the Group intends to sell immediately or in the near term, which shall be classified as held for trading, and those that the Group, upon initial recognition, designates as at fair value through profit or loss,
- Loans and receivables that the Group, upon initial recognition, designates as available for sale,
- Loans and receivables for which the Group may not recover substantially all of initial investment, other than because of credit deterioration.

After initial recognition, Loans and receivables are measured at amortised cost using the effective interest method, less any allowances for impairment. Finance lease receivables are subsequently measured as specified in the chapter Leasing. Interest income earned is included under the line item Net interest income in the profit or loss.
Impairment losses arising from Loans and receivables are recognised in the statement of profit or loss under the line item Net impairment loss on financial assets.

(ix) Financial liabilities measured at amortised cost
Financial liabilities are measured at amortised cost, unless they are measured at fair value through profit or loss.
For presentation in the statement of financial position the line item Financial liabilities measured at amortised cost is used. The liabilities are further broken down by Deposits from banks, Deposits from customers, Debt securities issued and Other financial liabilities.
Interest expenses incurred are reported in the line item Net interest income in the statement of profit or loss. Gains and losses from derecognition (mainly repurchase) of financial liabilities at amortised cost are reported under the line item Gains/losses from financial assets and liabilities not measured at fair value through profit or loss, net.

Financial instruments – recognition and measurement (continued)

(x) Relationships between statement of financial position items, measurement methods and categories (classes) of financial instruments:

Statement of financial position	Measurement principle			Financial instrument category
	Fair value	At amortised cost	Other	
Assets				
Cash and cash balances		x		Loans and receivables
Financial assets - held for trading				
Derivatives	x			Financial assets at fair value through profit or loss
Other trading assets	x			Financial assets at fair value through profit or loss
Financial assets - at fair value through profit or loss	x			Financial assets at fair value through profit or loss
Financial assets - available for sale	x			Available for sale financial assets
Financial assets - held to maturity		x		Held to maturity investments
Loans to and receivables from credit institutions		x		Loans and receivables
Finance lease			IAS 17	
Loans to and receivables from customers		x		Loans and receivables
Finance lease			IAS 17	
Liabilities and equity				
Financial liabilities - held for trading				
Derivatives	x			Financial liabilities at fair value through profit or loss
Other trading liabilities	x			Financial liabilities at fair value through profit or loss
Financial liabilities measured at amortised cost		x		Financial liabilities measured at amortised cost

Furthermore, two additional classes of financial instruments which are not presented in the table above are part of IFRS 7 disclosures. These are financial guarantees and irrevocable credit commitments.

(xi) Repurchase and reverse repurchase agreements
If a financial asset is sold under an agreement to repurchase it at a fixed price or at the sale price plus a lender’s return or if it is loaned under an agreement to return it to the transferor, it is not derecognized as the Group retains substantially all the risks and rewards of ownership.
Securities sold under sale and repurchase agreements (repos) are recorded as assets in the statement of financial position according to the original classification or the Group reclassifies the asset on its statement of financial position, as a Loans to and receivables from credit institutions or Loans to and receivables from customers if the transferee obtains the right to sell or pledge the asset. The corresponding liability towards the counterparty is included in Deposits from banks or Deposits from customers.
Securities purchased under agreements to resell (reverse repos) at a specified future date are not recognised in the statement of financial position. The consideration paid, is recorded in the statement of financial position line Loans to and receivables from credit institutions or Loans to and receivables from customers, reflecting the transaction’s economic substance as a loan. The difference between the sale and repurchase price is treated as interest and accrued evenly over the life of the repurchase agreement using the effective interest rate.

Reclassification of financial assets

IAS 39 provides various possibilities to reclassify financial assets between categories of financial instruments. It also places restrictions on some reclassifications. The Group makes reclassifications only in rare circumstances in accordance with the changes in investment policy. The Group has decided to hold some positions to maturity, hence these were reclassified from available for sale to held to maturity portfolio in 2014 - see note 14.

Derecognition of financial assets and financial liabilities

A financial asset (or where applicable part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the contractual rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either:
  - it has transferred substantially all the risks and rewards connected with the ownership of the asset, or
  - has neither transferred nor retained substantially all the risks and rewards connected with the ownership of the asset but has transferred control of the asset.

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires.

Impairment of financial assets and credit risk losses of contingent liabilities

All financial assets are assessed at each statement of financial position date whether there is any objective evidence that a financial asset or group of financial assets is impaired with the exception of those measured at fair value through profit or loss.
A financial asset or group of financial assets is deemed to be impaired if, and only if:

- there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset and
- that loss event or events have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

The Group uses the Basel III definition of default as a primary indicator of loss events. Default, as a loss event, occurs when:
- the obligor is more than 90 days past due on any material credit obligation;
- as a result of specific information or an event, the obligor is unlikely to fulfil its credit obligations in full, without recourse to actions such as realising security;
- the obligor is subject to distressed restructuring, i.e. a change in contract terms, for clients in financial difficulties, resulting in a material loss;
- the obligor is subject to bankruptcy or similar protection proceedings.

For the assessment at portfolio level, the Group uses the incurred but not reported losses concept. It identifies the time period between the moment of the loss event causing future problems and actual detection of the problems by the bank at the moment of default.

(i) Financial assets carried at amortised cost
The Group classifies loans and receivables and financial asset classified as held to maturity into the following categories:
- fully recoverable financial assets carried at amortised cost for which there is no objective evidence of impairment. For such on balance exposures collective allowances for incurred but not reported losses are allocated,
- financial assets carried at amortised cost for which there is an objective evidence of impairment and for which specific allowances are allocated, based on the outcome of discounted cash flow analysis. Impairment loss is determined as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate.

Impairment of financial assets and credit risk losses of contingent liabilities (continued)

In case there is an objective evidence of impairment for an asset, specific allowances are recognized and the type of specific allowances depends on whether the exposure is significant or not.
Accordingly, the Group recognises following allowances:
- for significant exposures, specific allowances are calculated individually and the amount of loss is recognised based on the individual assessment of the recoverable amount
- for non-significant exposures, specific allowances are calculated and the amount of loss is recognised based on the collective assessment (rule based approach on homogenous groups level).

Once the asset has been found impaired, previous related collective allowance needs to be released and a specific allowance must be allocated instead.
Direct reclassification from/to collective allowance to/from specific allowance is not permitted.
Assets together with the associated allowance are removed from the statement of financial position when there is no realistic prospect of future recovery and all collaterals have been realised by the Bank.
If in a subsequent year the amount of the estimated impairment loss increases or decreases, the previously recognised impairment loss is increased or reduced by adjusting the loss allowance.

In the profit or loss, impairment losses and their reversals are presented in the line item Net impairment loss on financial assets.

(ii) Available-for-sale financial assets
In cases of debt instruments classified as available for sale, the Group individually assesses whether there is objective evidence of impairment based on the same criteria used for financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that asset previously recognised in the statement of profit or loss. On recognising impairment, any amount of losses retained in the other comprehensive income item Available-for-sale reserve is reclassified to the statement of profit or loss and shown as impairment loss under the line item Net impairment loss on financial assets.
If, in a subsequent period, the fair value of a debt instrument increases, which can be related objectively to an event occurring after the impairment was recognized, the impairment loss is reversed through the statement of profit or loss under the line item Net impairment loss on financial assets. Impairment losses and their reversals are recognised directly against the assets on the Statement of Financial Position.
In cases of equity instruments classified as available for sale, objective evidence also includes a significant or prolonged decline in the fair value of the investment below its cost. The definition for significant is the decline of market price below 80% of the acquisition cost. The decline in fair value is prolonged when market price is continuously below during a period of nine months before the reporting date.
Where there is evidence of impairment on equity investments, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss, is shown as an impairment loss in the statement of profit or loss under the line item Net impairment loss on financial assets. Any amount of losses previously recognised under the other comprehensive income item Available-for-sale reserve has to be reclassified to the statement of profit or loss as part of an impairment loss under the line item Net impairment loss on financial assets.
Impairment losses on equity investments are not reversed through the statement of profit or loss; increases in the fair value after impairment are recognised directly in other comprehensive income. Impairment losses and their reversals are recognised directly against the assets on the statement of financial position.

Impairment of financial assets and credit risk losses of contingent liabilities (continued)

For investment in unquoted equity instruments carried at cost, because their fair value cannot be determined reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses shall not be reversed.

(iii) Contingent liabilities
Provisions for credit losses of contingent liabilities (particularly financial guarantees as well as credit commitments) are included under the statement of financial position line item Provisions. The related expense or its reversal is reported in the statement of profit or loss under the line item Other operating result. Credit risk losses resulting from contingent liabilities are recognised if it is probable that there will be an outflow of resources to settle a credit risk bearing contingent liability that will result in a loss.

Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount is reported on the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.
Income and expenses are presented on net basis only when permitted under IFRS or for gain and losses arising from group of similar transactions such as in the Group's trading activity.

Determination of fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date.
Details on valuation techniques applied for fair value measurement and on fair value hierarchy are disclosed in Note 35 Fair value of assets and liabilities.

Leasing

Leasing is classified as finance leasing if substantially all risks and benefits from ownership are transferred. Lessees shall recognise finance leases as assets and liabilities in their statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease.
Lessor shall recognise assets held under a finance lease in their statement of financial position as receivable at an amount equal to the net investment in the lease (present value of leasing payments including non-guaranteed residual value). Difference between total receivables and present value of receivables form an unearned finance income recognised in statement of profit or loss applying effective interest rate during the leasing period.

A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership of the assets to the lessee. Lessor shall recognise assets held under an operating lease at cost less accumulated depreciation. Lease income shall be recognised in profit or loss on a straight-line basis over the lease term.

Business combinations and goodwill

(i) Business combinations
Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The cost of the business combination is measured as the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. For business combinations from 1 January 2010, acquisition costs incurred are expensed and included in administrative expenses. For business combinations prior to 1 January 2010, acquisition costs were included in cost of business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 Business Combinations are recognized at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, which are recognized and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognized as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognized. If the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognized in statement of profit or loss in the period of acquisition in line Other operating result.

A business combination involving entities or businesses under common control is a business combination in which all of the combining entities or businesses are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory. As IFRS 3 does not apply to business combinations involving entities under common control, the Group has adopted, in line with IAS 8, an accounting policy whereby such transactions are accounted for using the pooling of interest method.

Application of this method is as follows:
- The assets and liabilities of the combining entities are reflected at their carrying amounts as previously presented in the consolidated financial statements of the parent entity of the Group;
- No adjustments are made to reflect fair values, or recognise any new assets or liabilities, that would otherwise be done under the purchase method. The only adjustments that are made are to harmonise accounting policies;
- No new goodwill is recognised as a result of the combination;
- The only goodwill that is recognised is any existing goodwill relating to either of the combining entities. Any difference between the consideration paid/transferred and the equity acquired is reflected within equity;
- The statement of profit or loss reflects the results of the combining entities for the full year, irrespective of when the combination took place;
- Comparatives are not restated.

Business combinations and goodwill (continued)

Acquisition of Erste Group IT HR d.o.o.:

On 12 April 2016, the Bank acquired additional 60% of shares in Erste Group IT HR d.o.o. increasing its ownership to 80% for a consideration of HRK 2 million.
As it was acquired within the Group (ultimate controlling parent is Erste Group Bank AG) pooling of interest accounting method for acquisition of the Erste Group It HR d.o.o. was used.

Amounts recognised on initial consolidation:

Statement of financial position	in HRK million
Amounts due from other banks	4
Loans and advances to customers	9
Other assets	50
ASSETS	**63**
Amounts due to other banks	46
Amounts due to customers	-
Other liabilities	13
LIABILITIES	**59**
Net assets acquired	**4**
Non- controlling interest (20% of net asset)	(1)
Net assets acquired before 2016	(1)
Total net asset acquired	2
Adjustment directly in equity	-
Cost of acquisition	**2**
Cash inflow on acquisition of the subsidiary:	
Cash acquired with the subsidiary	4
Cash paid	(2)
Net cash inflow	**2**

Business combinations and goodwill (continued)

Acquisition of Diners Club International MAK d.o.o.e.l.:

On 9 March 2017 subsidiary Erste Card Club d.o.o., Zagreb acquired 100 % of stake ownership in the company Diners Club International MAK d.o.o.e.l., Skopje, Republic of Macedonia for cash consideration in the amount of HRK 15 million.
For acquisition in Diners Club International MAK d.o.o.e.l. initial goodwill was recognized in the amount of HRK 4 million that was 100 % impaired.

Amounts recognised on initial consolidation:

Statement of financial position	**in HRK million**
Amounts due from other banks	3
Loans and advances to customers	38
Other assets	6
ASSETS	**47**
Amounts due to other banks	12
Amounts due to customers	23
Other liabilities	1
LIABILITIES	**36**
Net assets acquired	**11**
Total net asset acquired	11
Cost of acquisition	**15**
Goodwill	**4**

Cash inflow on acquisition of the subsidiary:	
Cash acquired with the subsidiary	1
Cash paid	(15)
Net cash outflow	**(14)**

Business combinations and goodwill (continued)

(ii) Goodwill and goodwill impairment testing
Goodwill arising on the acquisition of a subsidiary represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary recognized at the date of acquisition. Goodwill is initially recognized as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.
Goodwill acquired through business combinations is not amortized but tested for impairment annually with any impairment determined recognised in profit or loss. For reviewing the value of existing goodwill an annual impairment test is carried out for each cash-generating unit (CGU) to which goodwill has been allocated. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or group of assets.
Goodwill is tested for impairment by comparing the recoverable amount of each GCU, to which goodwill has been allocated with its carrying amount. The carrying amount of a CGU is derived based on the amount of equity allocated to CGU taking into account any goodwill and unamortised intangible assets recognised for CGU according to the purchase prices allocation.
The recoverable amount is the higher of a CGU's fair value less costs to sell and its value in use. Where available, the fair value less costs to sell is determined based on recent transactions, market quotations or appraisals. The value in use is determined using a discounted cash flow model (DCF-model), which incorporates the specifics of the banking business and its regulatory environment. In determining value in use, the present value of future earnings distributable to shareholders is calculated.
The estimation of future earnings distributable to shareholders is based on financial plans for CGUs as agreed by the management taking into account the fulfilment of the respective regulatory capital requirements. The planning period range is five years. After estimating earnings distributable to shareholders for the planning period they are discounted to their present values. Any earnings beyond the planning period are derived on the basis of the last year of the planning period and a long-term growth rate, which is based on macroeconomic parameters for each CGU. The estimated future earnings beyond the initial planning period are captured in the terminal value (TV). The discount rates applied to calculate present values have been determined based on the capital asset pricing model (CAPM). According to CAPM, the discount rate comprises a risk-free interest rate together with a market risk premium that itself is multiplied by a factor that represents the systematic market risk (beta factor). Furthermore, a country-risk premium is considered too. The values used to establish the discount rates are determined using external sources of information. Where the recoverable amount of CGU is less than its carrying amount, the difference is recognized as an impairment loss in Other operating result. The impairment loss is allocated first to writing down of CGU's goodwill. Any remaining impairment loss reduces the carrying amount of the CGU's other assets, though not to an amount less than their fair value less costs to sell. There is no need to recognize an impairment loss if the recoverable amount of the CGU is higher than or equal to its carrying amount. Impairment losses relating to goodwill cannot be reversed in future periods. For the details of the impairment test please see further note 21 of the financial statements.

Property and equipment

Property and equipment are stated at historical cost less accumulated depreciation and any accumulated impairment loss. Depreciation is calculated on a straight-line basis to write down the cost of such assets to their residual values over their estimated useful lives. Assets in the course of construction are not depreciated.
The estimated economic useful lives are set out below:

	Useful life in years	
	2016	2017
Buildings	40	40
Office furniture and equipment	3-10	3-10
Motor vehicles	4-6	4-6
Computer hardware	4	4

Property and equipment (continued)

Property and equipment is derecognised on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on disposal of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in the statement of profit or loss under the line item Other operating result.

Investment properties

Investment properties include investment in land and buildings or part of buildings by the owner (or by the lessee under a financial lease) to earn rentals and/or for capital appreciation.
An investment property is initially recognised at cost including all transaction costs.
Subsequent measurement is at cost (acquisition cost less accumulated amortisation and impairment loss). Investment property is presented in the statement of financial position in the line item Investment properties.
Rental income is recognised in the line Rental income from investment properties and other operating leases. Depreciation is presented in the statement of profit or loss in the line item Depreciation and amortisation using the straight-line method over an estimated useful life. The useful lives of investment properties are identical to those of buildings reported under property and equipment. Any impairment losses, as well as their reversals, are recognised under the statement of profit or loss line item Other operating result.

Intangible assets

In addition to goodwill, the Group's intangible assets include computer software, customer relationships and other intangible assets. An intangible asset is recognised only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Group.
Costs of internally generated software are capitalised if the Group can demonstrate the technical feasibility and intention of completing the software, the ability to use it, how it will generate probable economic benefits, the availability of resources and the ability to measure the expenditures reliably. Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.
The cost of intangible assets acquired in a business combination is their fair value as of the date of acquisition. In the Group, these are customer relationships, and they are capitalised on acquisition if they can be measured with sufficient reliability.
The estimated useful lives are as follows:

	Useful life in years	
	2016	2017
Software	4	4
Core banking software	6	6
Other intangible assets	5	5

Impairment of non-financial assets (property and equipment, investment properties, intangible assets)

The Group assesses at each reporting date whether there is an indication that a non-financial asset may be impaired. Testing for impairment is done at individual asset level if the asset generates cash inflows that are largely independent of those from other assets. The typical case is investment property. Otherwise the impairment test is carried out at the level of the cash-generating unit (CGU) to which the asset belongs. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. For specific rules related to impairment of goodwill and impairment allocation rules for CGUs please see the chapter Business combinations and goodwill, part (ii) Goodwill and goodwill impairment testing.

Impairment of non-financial assets (property and equipment, investment properties, intangible assets) (continued)

If any indication of impairment exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of the assets or CGU's fair value less costs of disposal and its value in use. If the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In measuring value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.
At each reporting date an assessment is made as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the bank estimates the asset's or CGU's recoverable amount. The previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount or does not exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years.

Impairments and their reversals are recognised in the statement of profit or loss under the line item Other operating result.

Inventory

The Group has collateral obtained in foreclosure procedures that is held for sale in the ordinary course of business. This property is presented as Other assets and is measured at the lower of cost and net realisable value in accordance with IAS 2 Inventories.
The cost of acquiring inventory includes not only the purchase price but also all other directly attributable expenses, such as transportation costs, customs duties, other taxes and costs of conversion of inventories, etc. Borrowing costs are capitalised to the extent to which they directly relate to the acquisition of real estate. Sales of these assets are recognised as revenues in the Statement of Profit or Loss under the line item Other operating result, together with costs of sales and other costs incurred in selling the assets.

Off-balance-sheet commitments

In the ordinary course of business, the Group enters into credit related commitments which are recorded in off-balance-sheet accounts and primarily include financial and performance guarantees, letters of credit and undrawn lending commitments. Such financial commitments are recorded in the Group's statement of financial position if and when they become payable. Guarantees and commitments to provide a loan are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the commitment, except for commitments to originate loans if it is probable that the Group will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination; such loan commitment fees are deferred and included in the carrying value of the loan on initial recognition. Where the Group has the contractual right to revert to its customer for recovering amounts paid to settle the guarantee contracts, such amounts will be recognised as loans and receivables upon transfer of the loss compensation to the guarantee's beneficiary.

Provisions

Provisions are recognized when the Group has a present obligation that can be reliably estimated as a result of a past event and it is probable that the Group will be required to settle that obligation. The Management Board determines the adequacy of the provision based upon reviews of individual items, recent loss experience, current economic conditions, the risk characteristics of the various categories of transactions and other pertinent factors at the statement of financial position date. Provisions are discounted to present value where the effect is material.
In the statement of financial position, provisions are reported under the line item Provisions. They include credit risk loss provisions for contingent liabilities (particularly financial guarantees and loan commitments) as well as provisions for litigation. Expenses or income related to provisions are reported under the line item Other operating result.

Long-term employee benefits

For defined retirement benefit and jubilees, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at each statement of financial position date. Actuarial gains or losses in respect of pension and severance benefit provisions are recognized in full in the period in which they occur.
Actuarial gains or losses in provisions for jubilee benefits are recognised in statement of profit or loss in the period in which they occur.
Past service cost is recognized immediately to the extent that the benefits are already vested, and otherwise is amortized on a straight-line basis over the average period until the benefits become vested.
The retirement benefit obligation recognized in the statement of financial position represents the present value of the defined benefit obligation.

Taxes on income

Taxes on income comprises current and deferred taxes, recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in OCI.

(i) Current tax
Current tax assets and liabilities for the current and prior years are measured as the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amounts are those enacted by the statement of financial position date.

(ii) Deferred tax
Deferred tax is recognised for temporary differences between the tax bases of assets and liabilities and their carrying amounts as of the statement of financial position date. Deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences and unused tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and carry forward of unused tax losses can be utilised.

The carrying amount of deferred tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each statement of financial position date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.
Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted as of the statement of financial position date. For the subsidiaries, local tax environments apply.

Taxes on income (continued)

Deferred tax liabilities are recognised for all taxable temporary differences, except:
- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except:
- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right to offset exists and the deferred taxes relate to the same taxation authority.

Fiduciary assets

Assets and income arising thereon, together with related undertakings to return such assets to customers, are excluded from the financial statements when the Group acts in a fiduciary capacity such as nominee, trustee or agent.

Recognition of income and expenses

Revenue is recognised to the extent that the economic benefits will flow to the entity and the revenue can be reliably measured. The description and revenue recognition criteria of the line items reported in the statement of profit or loss are as follows:

(i) Net interest income
Interest income or expense is recorded using the effective interest rate (EIR) method. The calculation includes origination fees resulting from the lending business as well as transaction costs that are directly attributable to the instrument and are an integral part of the EIR (apart from financial instruments at fair value through profit or loss), but no future credit losses. Interest income from individually impaired loans and receivables and held-to-maturity financial assets is calculated by applying the original effective interest rate used to discount the estimated cash flows for the purpose of measuring the impairment loss.
Interest income includes interest income on loans to and receivables from credit institutions and customers, on cash balances and on bonds and other interest-bearing securities in all financial assets categories. Interest expenses include interest paid on deposits from customers, deposits from banks, debt securities issued and other financial liabilities in all financial liabilities categories.
Interest on derivative financial instruments held in the banking book is also included in net interest income. In addition, net interest cost on severance payment, pension and jubilee obligations is presented here.

Recognition of income and expenses (continued)

(ii) Net fee and commission income
The Group recognises fee and commission income and expenses from a diverse range of services that are provided to its customers.

Fees earned for the provision of services over a period of time are accrued over that period. These fees include lending fees, guarantee fees, commission income from asset management, custody and other management and advisory fees as well as fees from insurance brokerage, building society brokerage and foreign exchange transactions.

(iii) Dividend income
Dividend income is recognised when the right to receive the payment is established.
This line item includes dividend from shares and other equity-related securities in all portfolios as well as income from other investments in companies categorised as available for sale. It also contains dividends from subsidiaries and from associates or joint ventures which are not consolidated or not accounted for using the equity method due to their insignificance. Such non-consolidated associates, joint ventures and subsidiaries are presented as Other assets.

(iv) Net trading and fair value result
Results arising from trading activities include all gains and losses from changes in fair value (clean price) on financial assets and financial liabilities classified as held for trading, including all derivatives not designated as hedging instruments. In addition, for derivative financial instruments held in the trading book, net trading result also contains interest income or expense. However, interest income or expenses on non-derivative trading assets and liabilities and on derivatives held in the banking book are not part of a Net trading result as they are reported as Net interest income. It also includes any ineffective portions recorded in fair value and foreign exchange gains and losses.
Fair value result relates to changes in the clean price of assets and liabilities designated at fair value through profit or loss.

(v) Net result from equity method investments
The line item contains result from associates and joint ventures recorded by applying the equity method (measured as investor's share of profit or loss in the associates and joint ventures).
However, impairment losses, reversal of impairment losses and realised gains and losses on investments in associates or joint ventures accounted for using the equity method are reported under the line item Other operating result.

(vi) Rental income from investment properties and other operating leases
Rental income from investment properties and other operating leases is recognised on a straight-line basis over the lease term.

(vii) Personnel expenses
Personnel expenses include wages and salaries, bonuses, statutory and voluntary social security contributions, staff-related taxes and levies. They also include service cost for severance payment, pension and jubilee obligations and remeasurements of jubilee obligations.

(viii) Other administrative expenses
Other administrative expenses include information technology expenses, expenses for office space, office operating expenses, advertising and marketing, expenditures for legal and other consultants as well as sundry other administrative expenses. Furthermore the line item contains deposit insurance contributions expenses.

(ix) Depreciation and amortisation
This line item comprises depreciation of property and equipment, depreciation of investment property and amortisation of intangible assets.

Recognition of income and expenses (continued)

(x) Gains/losses on financial assets and liabilities not measured at fair value through profit or loss, net
This line item includes selling and other derecognition gains or losses on available-for-sale and held-to-maturity financial assets, loans and receivables and financial liabilities measured at amortised cost. However, if such gains/losses relate to individually impaired financial assets they are included as part of net impairment loss.

(xi) Net impairment losses on financial assets
Net impairment losses on financial assets comprise impairment losses and reversals of impairment on loans and receivables, held-to-maturity and available-for-sale financial assets. Net impairment losses relate to allowances recognised both at individual and portfolio (incurred but not reported) level. Direct write-offs are considered as part of impairment losses. This line item also includes recoveries on written-off loans removed from the statement of financial position.

(xii) Other operating result
Other operating result reflects all other income and expenses not directly attributable to the Bank's and the Group's ordinary activities. Furthermore, levies on banking activities are considered as part of other operating result.
Other operating result includes impairment losses or any reversal of impairment losses as well as results on the sale of property and equipment and intangible assets. Also included here are any impairment losses on goodwill. In addition, other operating result encompasses the following: expenses for other taxes (including levies on banking activities), income from the release of and expenses for allocations to provisions, impairment losses (and their reversal if any) as well as selling gains and losses on equity investments accounted for using the equity method and gains or losses from derecognition of subsidiaries.

d) SIGNIFICANT ACCOUNTING JUDGEMENTS, ASSUMPTIONS AND ESTIMATES

In the application of the accounting policies, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities and amounts of income and expenses that are not readily apparent from other sources.
The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.
The key assumptions concerning the future and other key sources of estimation uncertainty at the statement of financial position date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Control
IFRS 10 Consolidated Financial Statements defines the investor's control over an investee in terms of the investor having all of the following: (a) power to direct the relevant activities of the investee, i.e. activities that significantly affect the investee's returns; (b) exposure, or rights, to variable returns from its involvement with the investee; and (c) the ability to use its power over the investee to affect the amount of the investor's returns.

Hence, assessing the existence of control under this definition may require considerable accounting judgements, assumptions and estimates, notably in non-standard situations such as: (1) power stemming both from voting rights and from contractual arrangements (or mostly from the latter); (2) exposure stemming both from on-balance investments and from off-balance commitments or guarantees (or mostly from the latter); or (3) variable returns stemming both from readily identifiable income streams (e.g. dividends, interest, fees) and from cost savings, economies of scale and/or operational synergies (or mostly from the latter) .

In the course of acquiring additional share in Erste Leasing (the Company) during 2014, the Bank has assessed whether it controls the entity in accordance with IFRS 10 and concluded that in the judgment of the Management the Bank controls the Company as it has the ability to direct the relevant activities of the Company, direct influence on the structure of the Company's business as well as has material impact on the Company's turnover. Furthermore, the Bank has the ability to use its power over the Company to affect the amount of the investor's returns. The Bank has established the frame within which can keep track of the Company's portfolio movement as well as their entire business operations. Close collaboration has been established between sales business lines as well as constant coordination of risk management organisational parts, respectively strategic risk management of the Company and strategic management of the entire Company's relevant business aspects have been implemented.

Impairment of financial assets
The Group reviews its financial assets not measured at fair value through profit or loss at each balance sheet date to assess whether an impairment loss should be recorded in the Statement of Profit or Loss. In particular, it is required to determine whether there is objective evidence of impairment as a result of a loss event occurring after initial recognition and to estimate the amount and timing of future cash flows when determining an impairment loss.
Disclosures concerning impairment are provided in Note 34.4 Credit risk.

e) APPLICATION OF AMENDED AND NEW IFRS/IAS

The accounting policies adopted are consistent with those used in the previous financial year except for standards and interpretations that became effective for financial years beginning on or after 1 January 2017. As regards new standards and interpretations and their amendments, only those that are relevant for the business of the Bank and the Group are listed below.

Effective standards and interpretations

The following standards and their amendments have become mandatory for our financial year 2017, endorsed by the EU:

- *Amendments to IAS 7: Disclosure Initiative*
- *Amendments to IAS 12: Recognition of deferred tax assets for unrealised losses*
- *Annual Improvements to IFRSs 2014 2016 Cycle (amendments to IFRS 12)*

Application of the above mentioned amendments did not have a significant impact on the Group's financial statements.

Standards and interpretations not yet effective

The standards, amendments and interpretations shown below were issued by the IASB but are not yet effective.

Following standards, amendments and interpretations are not yet endorsed by the EU:

- *IFRS 17: Insurance Contracts*
- *Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*
- *Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions*
- *Amendments to IAS 19: Plan Amendment, Curtailment or Settlement*
- *Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures*
- *Amendments to IAS 40: Transfers of Investment Property*
- *Annual Improvements to IFRSs 2015-2017 Cycle (amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23)*
- *IFRIC 22: Foreign Currency Transactions and Advance Consideration*
- *IFRIC 23: Uncertainty over Income Tax Treatments*

Application of the above mentioned standards and amendments will not have a significant impact on the Group's financial statements.

Following standards, amendments and interpretations are already endorsed by the EU:

- *IFRS 9: Financial Instruments*
- *IFRS 15: Revenue from Contracts with Customers including Amendments to IFRS 15: Effective date of IFRS 15*
- *Clarifications to IFRS 15 Revenue from Contracts with Customers*
- *IFRS 16: Leases*
- *Annual Improvements to IFRSs 2014 2016 Cycle (amendments to IAS 28 and IFRS 1)*

Standards and interpretations not yet effective (continued)

The adoption of standards and interpretation is described below:

IFRS 9: Financial Instruments (IASB Effective Date: 1 January 2018)
IFRS 9 was issued in July 2014 and is effective for annual periods beginning on or after 1 January 2018. IFRS 9 addresses the classification and measurement of financial assets and liabilities, introduces new principles for hedge accounting and a new impairment model for financial assets.

The Group has reviewed its financial assets and financial liabilities in order to evaluate the impact of the first application of IFRS 9 on Group's equity and regulatory capital as of 1 January 2018 ('transition impact'). This review involved iterative financial impact studies across the Group which continued throughout 2017. Furthermore, starting with the second half of 2017, a fully-fledged parallel run of the IAS 39 production environment and the IFRS 9 test environment has been undertaken in multiple iterations. This parallel run provided significant benefits with regards to ensuring a technically correct transition to IFRS 9, but also with regards to refining the transition impact expectations. At the same time, the parallel run outputs bear an inherent degree of approximation that has been reducing along with different IFRS 9-driven functionalities being user-tested and transferred into production. Post-transition activities will continue throughout the year 2018, notably in respect of:

- finalisation of the testing and assessment of controls over IT-systems and changes to their governance framework;
- validation and potential refinement of the models for expected credit loss calculations;
- updating the policy landscape at Group and local entity level, in all business lines directly or indirectly affected by IFRS 9.

IFRS 9 introduces two classification criteria for financial assets: 1) an entity's business model for managing the financial assets, and 2) the contractual cash flow characteristics of the financial assets. As a result, a financial asset is measured at amortised cost only if both of the following conditions are met: a) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal outstanding and b) the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows. Measurement of a fair value through other comprehensive income (FVtOCI) is applicable to financial assets held within a business model whose objective is achieved by both collecting contractual cash flows and selling the assets (hold and sell) while condition a) is also fulfilled. All other financial assets are measured at fair value through profit or loss (FVtPL). The main impacts resulting from the classification and measurement model upon transition to IFRS 9 are described below.

In respect of the business model criterion, the main changes relates to financial assets classified as held to maturity under IAS 39. Debt securities which are part of corporate portfolio will be classified and measured at FVtOCI under IFRS 9 at carrying amount HRK 500 million for the Group and HRK 268 million for the Bank. Further, investment funds classified as available-for-sale and measured at FVtOCI under IAS 39 in the Group at a carrying amount of HRK 153 million and the Bank at a carrying amount of HRK 15 million will be classified and measured at FVTPL under IFRS 9.

In applying the business model criterion the Group has to assess the expected selling activity of financial assets. At the Group, sales due to increases in credit risk, sales close to assets' maturity, infrequent sales triggered by a non-recurring event (such as changes in regulatory environment, severe liquidity crisis) are considered as not contradicting the 'held to collect' business model. Other kinds of sales are expected to be insignificant as to their volume. As a result, sales are incidental in the 'held to collect' business model. On the other hand, in the hold and sell business model the sales of debt securities are significant and frequent and thus they are integral to meeting the business model objectives. The Group will carry out such sales in order to optimise the liquidity position or to realise the fair value gains or losses.

Standards and interpretations not yet effective (continued)

Regarding the contractual cash flows characteristics criterion the Group and the Bank concluded that the all of its loan portfolio amounting to HRK 48,530 million for the Group and HRK 41,644 million for the Bank which is currently classified as loans and receivables will continue to be measured at AC. This outcome reflects completion of all mitigation activities undertaken since 2015 across the Group to reduce the volume of loans which would otherwise have been subject to FVtPL measurement.

Investments in equity instruments at a carrying amount of approximately HRK 8 million for the Group and HRK 5 million for the Bank currently categorised as available-for-sale will be categorised as FVtPL. The new standard provides an option to designate non-trading equity instruments at FVtOCI at initial recognition. The Group and the Bank will make use of this option for some equity investments that represent strategic business relationships.

IFRS 9 does not change classification and measurement principles for financial liabilities compared to IAS 39. The only change is related to financial liabilities designated at fair value through profit or loss (fair value option). The fair value changes related to the credit risk of such liabilities will be presented in other comprehensive income. The Group and the Bank do not have any financial liability classified at FVtTPL (fair value option).

The new impairment model requires recognition of credit loss allowances (CLA) based on expected credit losses (ECL) rather than only incurred credit losses as is the case under IAS 39. It applies to credit risk exposures stemming from debt instruments classified at AC or FVtOCI, lease receivables, financial guarantee contracts and certain loan commitments.

For credit risk exposures that are not credit-impaired at initial recognition, the Group will recognise CLA at an amount equal to 12-month ECL (referred to as Stage 1) for as long as no significant increase in credit risk since initial recognition (SICR) is identified at the reporting date. In the other cases, the CLA is measured at lifetime ECL and the related instruments are referred to as Stage 2, unless they are found to be credit-impaired at the reporting date (referred to as Stage 3). For purchased or originated credit-impaired financial assets (POCI), only adverse changes in lifetime ECL after the initial recognition are distinctly recognised as CLA, whilst favourable changes are recognized as impairment gains increasing the carrying amount of the related POCI assets. The measurement of ECL reflects a probability-weighted outcome, the time value of money and reasonable and supportable forward-looking information.

For lease receivables and trade receivables not containing a significant financing component (where the Group also includes its factoring receivables), IFRS 9 allows a simplified impairment approach, whereby credit loss allowances are always measured at lifetime ECL. The Group will not apply this simplification.

In the area of ECL modelling and CLA calculation, the Group has identified a number of key drivers, as follows:

a) the credit-impaired definition

In respect of applying the credit-impaired concept of IFRS 9, the Group generally adopted the approach of aligning it with the regulatory concept of default for lending exposures. If the default status exists already at an exposure's initial recognition (e.g. in the context of a significant distressed restructuring), then that exposure is identified as POCI.

Standards and interpretations not yet effective (continued)

b) the SICR indicators applicable to not credit-impaired exposures

Across portfolios and product types, a number of quantitative and qualitative SICR indicators have been defined, in addition to the SICR indicator of 30 days-past-due.

Thus, SICR is quantitatively measured by reference to the adverse change, since instrument's initial recognition, in the current annualised remaining lifetime probability of default (PD) and in the current 12-month PD. Significance of such change is assessed by reference to a combination of relative and absolute change thresholds. Current PDs are determined to reflect the current default risk as a point-in-time measure. The thresholds are established at PD segment level or client rating level, as appropriate, and are subject to initial and on-going validation.

Qualitative SICR indicators include all reliable and relevant information such as forbearance-type flags, a work-out transfer flag, etc. The assignment of some specific qualitative indicators inherently relies on experienced credit risk judgment being exercised adequately and timely. Besides the qualitative indicators defined on client level, the assessment of significant increase in credit risk is performed on portfolio level if the increase in credit risk on individual instrument or client level is only available with a certain time lag or is observable exclusively on portfolio level.

Upon transition to IFRS 9 the SICR has to be determined in respect of PDs which existed at instruments' initial recognition. Where retrospective identification PDs at initial recognition was not possible without undue cost or effort, the Group implemented the following sequence of approximation methods: closest rating to initial recognition, re-rating based on historical data with current rating model, best possible rating for the relevant portfolio at the time, first available rating.

Application of the low credit risk exemption allowed by IFRS 9 for investment grade or other low-risk deemed assets (and resulting in 12 months expected credit losses being calculated irrespective of SICR quantitative measures) will be limited to particular types of debt securities and counterparty categories, and only if supported by sufficient low risk evidence at local level.

c) ECL modelling

The key risk parameters used in the measurement of ECLs - PD, loss given default (LGD) and exposure at default (EAD) - are derived from internally developed statistical models and other historical data that leverage regulatory models.

The PD describes a probability that a client will default on the related loan obligation. The 12-month PD reflects the estimated probability of default within one year from the reporting date, whilst the lifetime PD indicates the estimated probability of default until instrument's maturity and cumulates conditional marginal 12-month PD estimates attributable to each year until maturity. The PD estimation methods used in the Group depend on the segmentation criteria defined by the relevant local strategic risk management units. The applicable estimation methods include average default rate analysis and internal/external migration matrices and consider adjustments to the point-in-time-estimate.

The LGD captures the loss rate in the case of default. In general, the selection of estimation method depends on portfolio, and whether the curve is defined on LGD segment, client or account level. The LGD estimation methods applicable in the Group include a simple scenario approach and an advanced multiple scenario approach. For defaulted exposures, the calculation methodology provides for a probability-weighted average of predefined workout scenarios.

The EAD that is attributable to any given future year throughout an on-balance exposure's remaining maturity is approximated on the basis of exposure's current gross carrying amount multiplied by an amortization coefficient that depends on exposure's contractual repayment type. For off-balance not-credit-impaired exposures, the EAD approximation is based on the current nominal amount of the exposure, multiplied by the credit conversion factor.

Standards and interpretations not yet effective (continued)

d) Consideration of forward-looking information (FLI)

Measurement of ECLs and SICR assessment require further consideration of FLI, which the Group has addressed by introducing a baseline forecast and a number of alternative scenarios for selected macroeconomic variables. These are derived, together with their probabilities of occurrence, as a deviation from baseline forecasts, where the baseline forecasts are, with a few exceptions, internally determined by the Group's research department. Given multiple scenarios, the 'neutral' PD (and also LGD, with a few exceptions) are adjusted through macro models which link relevant macroeconomic variables with risk drivers. Thus, the unbiased, probability-weighted ECL is derived with the weights representing the occurrence probabilities of each macroeconomic scenario. Typical macroeconomic variables may include real gross domestic product, unemployment rate, inflation rate, production index as well as market interest rates. The selection of variables also depends on the availability of reliable forecasts for the given local market.

e) Period of exposure to credit risk

Apart from using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, the Group will measure ECLs considering the risk of default over the maximum contractual period (including any borrower's extension options). This extends to the date at which the Group has the right to require repayment of an advance or terminate a loan commitment or guarantee.

However, for revolving credit facilities with unspecified maturity and/or cancellable at short notice and for which the day-to-day internal credit risk management activities are customarily performed on a portfolio basis only, best estimates of the period of exposure to credit risk have been developed at entity level across the Group, based on the available data history and expert judgement. Such estimates generally range from 2 to 4 years, with few exceptions, and vary depending on product type, client segment and lender entity. Retail credit cards and overdrafts are among the most relevant exposure types for such estimates and those exposures are rather immaterial compared to overall Group's portfolio.

Transition to IFRS 9 is expected to result in an increase of the 2018 opening balance of credit loss allowances compared to the 2017 closing balance of loan loss provisions under IAS 39 (including provisions for off-balance exposures treated under IAS 37) by 2.8% for the Group and 4.3% for the Bank.

This expected increase is the combined effect of:

(i) + 2.3 % for the Group and 3.6% for the Bank resulting from additional loss allowances recognized upon the initial application of the expected credit loss model to credit exposures in the scope of the impairment requirements of both IAS 39/IAS 37 and IFRS 9;

(ii) + 0.5 % for the Group and 0.7 % for the Bank resulting from new loss allowances in respect of credit exposures in the scope of the impairment requirements of IFRS 9 but for which no loan loss provisions were recognized under IAS 39 (such as financial assets which were previously classified as available-for-sale).

Overall, the IFRS 9 transition is expected to result in a decrease of Group's accounting equity by approximately HRK 0.2 million for the Group and HRK 7 million for the Bank, thereof approximately HRK 29.8 million for the Group and HRK 28.3 million for the Bank relates to retained earnings (accumulated effects which would have impacted profit or loss in previous periods, in connection with all financial instruments subject to classification-driven re-measurement and/or ECL calculation upon transition) and approximately positive effect in amount HRK 29.6 million for the Group and HRK 21.7 million for the Bank to accumulated OCI (accumulated effects which would have impacted other comprehensive income in previous periods, in connection with both financial assets classified at FVtOCI and financial liabilities retrospectively designated at FVtPL upon transition).
Further, the associated reduction of the CET 1 ratio is estimated to be immaterial on the Group (Basel 3 phase-in). The Group does not apply the transitional provisions for IFRS 9 acc. to Art. 473a CRR when calculating regulatory own funds.

Standards and interpretations not yet effective (continued)

The new standard also resulted in amended IFRS requirements regarding presentation and disclosure. These are expected to change the nature and extent of the group's disclosures about its financial instruments particularly in the year of the adoption of the new standard. In anticipation of such changes, the Group has already implemented significant updates of the structure of the financial statements (both main components and explanatory notes). Such updates have also taken into account the applicable changes in the regulatory reporting requirements (notably FINREP related) as stipulated by the EU Commission or the relevant national regulators, respectively.

IFRS 15 Revenue from Contracts with Customers (IASB Effective Date: 1 January 2018)
IFRS 15 was issued in May 2014 and is effective for annual periods beginning on or after 1 January 2018. Clarifications to IFRS 15 were issued April 2016. IFRS 15 specifies how and when an entity recognises revenue from contracts with customers. It also requires such entities to provide users of financial statements with more informative and more relevant disclosures. The standard provides a single, principles based five-step model to be applied to all contracts with customers. Also in the areas of variable considerations and capitalisation of cost IFRS 15 provides modified regulations. The standard is not focused on recognition of revenues from financial services. The Group does not expect any significant impact from application of IFRS 15.

IFRS 16 Leases (IASB Effective Date: 1 January 2019)
In January 2016, the IASB issued IFRS 16 being effective for annual periods beginning on or after 1 January 2019. IFRS 16 specifies the depiction of lease arrangements in the financial statements. Compared to the previous standard IAS 17, there is a fundamental alteration in respect of the recognition of operating leasing arrangements for the lessee. As defined in IFRS 16, the standard requires the lessee to recognize a right of use asset on the debit side of the statement of financial position as well as a corresponding lease liability on the credit side of the statement of financial position except for immateriality in cases of short term leasing arrangements and small ticket leasing arrangements for low-value assets. By contrast, accounting changes for the lessor are only minor compared to IAS 17. Compared to IAS 17 the notes will be much more comprehensive under IFRS 16.

The analysis and planning of proper IT solutions for the requirements of IFRS 16 have continued throughout 2017. At the same time the assessment of the contracts has been in focus. The rollout of proper IT structure is planned to be realised in 2018.

Since the analysis of the impact of IFRS 16 has not yet been completed, no quantitative estimates with respect to the effects of the transition to IFRS 16 can be made at this time. However an immaterial enhancement of the balance sheet is expected.

Regarding the transition method the Group is planning to follow the modified retrospective approach with recognition of the adjustments arising out of the first time application of IFRS 16, if any, in equity at the date of initial application. The applicable discount rate will be the one determined at the date of initial application.

C. NOTES

1. Net interest income

	GROUP			BANK
in HRK million	**2016**	**2017**	**2016**	**2017**
Interest income				
Financial assets - held for trading	41	17	41	17
Financial assets - available for sale	203	192	186	173
Financial assets - held to maturity	74	81	49	56
Loans and receivables	2,593	2,330	2,038	1,862
Total interest income	**2,911**	**2,620**	**2,314**	**2,108**
Interest expenses				
Financial liabilities - held for trading	(4)	(7)	(1)	(7)
Financial liabilities measured at amortised cost	(840)	(540)	(725)	(443)
Other liabilities	-	-	-	-
Total interest expense	**(844)**	**(547)**	**(726)**	**(450)**
Interest income from negative interest rates	-	4	-	4
Interest expenses from negative interest rates	(7)	(6)	(6)	(6)
Net interest income	**2,060**	**2,071**	**1,582**	**1,656**

2. Net fee and commission income

	GROUP			BANK
in HRK million	**2016**	**2017**	**2016**	**2017**
Securities	17	28	17	28
Own issues	14	24	14	24
Transfer orders	4	4	4	4
Securities Other	(1)	-	(1)	-
Asset management	20	26	20	26
Custody	8	8	5	7
Payment services	546	567	305	319
Card business	288	294	53	54
Other	258	273	252	265
Customer resources distributed but not managed	19	20	18	20
Collective investment	(1)	(1)	(1)	(1)
Insurance products	16	18	15	18
Building society brokerage	4	3	4	3
Lending business	49	58	31	36
Loan commitments given, Loan commitments received	12	20	1	5
Guarantees given, guarantees received	32	33	29	30
Other lending business	5	5	1	1
Other	4	8	14	9
Net fee and commission income	**663**	**715**	**410**	**445**
Fee and commission income	865	937	560	610
Fee and commission expenses	(202)	(222)	(150)	(165)

The fee and commission income and expense, which are presented in this table, are not an integral part of the effective interest rate.

3. Dividend income

	GROUP		BANK	
in HRK million	2016	2017	2016	2017
Financial assets - available for sale	1	1	1	1
Dividend income from equity investments	-	-	30	24
Dividend income	**1**	**1**	**31**	**25**

4. Net trading and fair value result

	GROUP		BANK	
in HRK million	2016	2017	2016	2017
Net trading result				
Securities and derivatives trading	63	30	63	29
Foreign exchange transactions	159	169	149	173
Net result on financial assets and liabilities designated at fair value through profit or loss	-	-	-	-
Net trading and fair value result	**222**	**199**	**212**	**202**

The amounts of the fair value changes that are attributable to changes in own credit risk can be found in the Notes 35.

5. Rental income from investment properties and other operating leases

	GROUP		BANK	
in HRK million	2016	2017	2016	2017
Investment properties	3	4	2	2
Other operating leases	175	143	-	-
Rental income from investment properties & other operating leases	**178**	**147**	**2**	**2**

6. General administrative expenses

	GROUP		BANK	
in HRK million	2016	2017	2016	2017
Personnel expenses	**(635)**	**(668)**	**(453)**	**(487)**
Wages and salaries	(531)	(564)	(378)	(409)
Compulsory social security	(86)	(86)	(60)	(64)
Long-term employee provisions	-	(2)	(1)	(1)
Other personnel expenses	(18)	(16)	(14)	(13)
Other administrative expenses	**(593)**	**(644)**	**(431)**	**(467)**
Deposit insurance contribution	(82)	(81)	(70)	(69)
IT expenses	(133)	(160)	(121)	(144)
Expenses for office space	(100)	(105)	(80)	(83)
Office operating expenses	(124)	(128)	(66)	(68)
Advertising/marketing	(66)	(73)	(36)	(42)
Legal and consulting costs	(64)	(70)	(41)	(41)
Sundry administrative expenses	(24)	(27)	(17)	(20)
Depreciation and amortisation	**(236)**	**(228)**	**(42)**	**(58)**
Software and other intangible assets	(26)	(36)	(8)	(19)
Owner occupied real estate	(16)	(17)	(15)	(15)
Movable other property	(146)	(120)	-	-
Investment Properties	(1)	(2)	(1)	(1)
Office furniture and equipment and sundry property and equipment	(47)	(53)	(18)	(23)
General administrative expenses	**(1,464)**	**(1,540)**	**(926)**	**(1,012)**

The Group does not have pension arrangements separate from the State pension system of Croatia. This system requires that current contributions by the employer are calculated as a percentage of current gross salary payments; these expenses are charged to the profit or loss statement in the period the related compensation is earned by the employee. In 2017 expense amount for pension contributions was HRK 106 million in the Group (2016: HRK 98 million) and HRK 75 million for the Bank (2016: HRK 67 million).

6. General administrative expenses (continued)

Average number of employees during the financial year (weighted according to the level of employment)

	2016	2017
Erste&Steiermärkische Bank d.d.	2,205.61	2,340.83
Erste Card Club d.o.o.	259.66	272.93
Izbor Nekretnina d.o.o.	-	-
Erste Nekretnine d.o.o.	19.94	22.54
Erste Factoring d.d.	28.14	29.79
Erste Group IT HR d.o.o.	122.43	63.91
Erste bank Podgorica d.d.	250.45	258.04
Erste Card Slovenia d.o.o.	59.22	58.62
Erste&Steiermärkische S-Leasing d.o.o.	76.62	80.57
Diners Club International Mak d.o.o.e.l.	-	42.24
Total	**3,022.07**	**3,169.47**

7. Gains/losses from financial assets and liabilities not measured at fair value through profit or loss, net

	GROUP		BANK	
in HRK million	**2016**	**2017**	**2016**	**2017**
Gains/losses from sale of financial assets available for sale	65	5	50	3
Gains/losses from financial assets and liabilities not measured at fair value through profit or loss, net	**65**	**5**	**50**	**3**

In June 2016 the Group and the Bank sold its shares in VISA Europe Ltd. which resulted in a gain related to the sale of shares of HRK 75 million for the Group and HRK 63 million for the Bank.

8. Net impairment loss on financial assets not measured at fair value through profit or loss

	GROUP		BANK	
in HRK million	**2016**	**2017**	**2016**	**2017**
Financial assets - available for sale	-	(5)	-	(4)
Loans and receivables	(357)	(861)	(359)	(436)
Allocation to risk provisions	(2,155)	(2,540)	(1,832)	(1,592)
Release of risk provisions	1,642	1,546	1,367	1,067
Direct write-offs	(6)	(7)	(4)	(5)
Recoveries recorded directly to the statement of profit or loss	162	140	110	94
Financial assets - held to maturity	(7)	-	(4)	-
Net impairment loss on financial assets not measured at fair value through profit or loss	**(364)**	**(866)**	**(363)**	**(440)**

9. Other operating result

	GROUP		BANK	
in HRK million	**2016**	**2017**	**2016**	**2017**
Result from properties/movables/other intangible assets other than goodwill	(83)	4	(75)	3
Allocation to/release of other provisions	59	(21)	42	(8)
Allocation to/release of provisions for commitments and guarantees given	(45)	11	(39)	8
Other taxes	(26)	(22)	(19)	(15)
Impairment of goodwill	(53)	(4)	-	-
Impairment of investment in subsidiaries	-	-	(53)	(21)
Result from other operating expenses/income	(9)	(70)	(23)	(37)
Other operating result	**(157)**	**(102)**	**(167)**	**(70)**

9. Other operating result (continued)

Line Impairment of goodwill and investment in subsidiaries contains impairment expense of goodwill and investment in Erste Card Club d.o.o. for 2016. In 2017 impairment expense of goodwill relates to Erste Card Club subsidiary Diners Club International Mak d.o.o.e.l. (for details please see note 21).

Line impairment of investment in subsidiaries in 2017 relates to Erste Factoring d.o.o. in amount of HRK 21 million.

In result of properties / moveable's / other intangible assets other than goodwill, the impairment losses of property, plant and equipment, intangible asset and foreclosed assets are included. In 2017 the Group and Bank impairment losses for foreclosed asset were HRK 10 million and HRK 5 million, respectively (2016: HRK 88 million for the Group and HRK 82 million for the Bank).

Recovery and Resolution Fund

In the line Result from other operating expense/income contributions to the national resolution funds payable in 2017 in the amount of HRK 30 million for the Group and the Bank (2016: HRK 39 million) are disclosed. The contributions are based on the European Recovery and Resolution Directive, which, inter alia, establishes a financing mechanism for the resolution of credit institutions. As a consequence, banks are required to contribute annually to a resolution fund, which in first step is installed on a national level. According to these regulations, until 31 December 2024 the available financial means to resolution funds shall reach at least 1% of the amount of covered deposits of all the credit institutions authorized within the European Union. Therefore the resolution funds have to be built over 10 years, during which the contributions shall be spread out as even as possible until target level is reached.

10. Taxes on income

Taxes on income are made up of current taxes on income calculated in each of the Group companies based on the results reported for tax purposes, corrections to taxes on income for previous years, and the change in deferred taxes.

	GROUP		BANK	
in HRK million	**2016**	**2017**	**2016**	**2017**
Current tax expense / income	(88)	(194)	(37)	(156)
Current period	(88)	(194)	(37)	(156)
Deferred tax expense / income	(212)	11	(167)	(6)
Current period	(212)	11	(167)	(6)
Total	**(300)**	**(183)**	**(204)**	**(162)**

The following table reconciles the income taxes reported in the statement of profit or loss to the pre-tax profit/loss multiplied by the nominal Croatian tax rate (18% for 2017 and 20% for 2016).

	GROUP		BANK	
in HRK million	**2016**	**2017**	**2016**	**2017**
Pre-tax profit	1,213	640	830	812
Income tax expense for the financial year at the domestic statutory tax rate	(243)	(115)	(166)	(146)
Impact of different foreign tax rates	7	5	-	-
Impact of tax-exempt earnings of investments and other tax-exempt income	14	3	7	5
Tax increases due to non-deductible expenses, additional business tax and similar elements	(49)	(26)	(29)	(21)
Impact non-recoverable temporary differences incurred in the current period	-	(51)	-	-
Tax income not attributable to the reporting period	1	1	-	-
Tax expense out of changes of the tax rate	(30)	-	(16)	-
Total	**(300)**	**(183)**	**(204)**	**(162)**
Effective tax rate	**25%**	**29%**	**25%**	**20%**

From 1 January 2017 corporate income tax rate was reduced from 20% to 18% in Croatia. In respect of this change, the Group and the Bank already decreased in 2016 deferred tax asset and liability. The effect of change of deferred tax asset and liability was shown in Statement of Profit or Loss in 2016 under the line Tax on income in amount of HRK 30 million for the Group and HRK 16 million for the Bank.

11. Cash and cash balances

	GROUP		BANK	
in HRK million	2016	2017	2016	2017
Cash on hand	1,216	1,491	1,101	1,366
Cash balances at central banks	2,624	2,735	2,186	2,521
Other demand deposits	548	413	450	283
Cash and cash balances	**4,388**	**4,639**	**3,737**	**4,170**

Analysis of cash and cash equivalents for statement of cash flow

	GROUP		BANK	
in HRK million	2016	2017	2016	2017
Cash on hand	1,216	1,491	1,101	1,366
Cash balances at central banks	2,624	2,735	2,186	2,521
Other demand deposits	548	413	450	283
Placement with banks with original maturity up to 3 months	151	557	150	555
Treasury bills with original maturity up to 3 months	-	149	-	149
Cash and cash equivalents	**4,539**	**5,345**	**3,887**	**4,874**

12. Derivatives - held for trading

	GROUP					
	2016			2017		
in HRK million	Notional value	Positive fair value	Negative fair value	Notional value	Positive fair value	Negative fair value
Derivatives held in the trading book	**5,666**	**73**	**71**	**8,125**	**52**	**49**
Interest rate	374	6	5	807	6	3
Foreign exchange	5,292	67	66	7,318	46	46
Derivatives held in the banking book	**4,924**	**-**	**6**	**2,442**	**-**	**3**
Interest rate	3,023	-	-	1,878	-	3
Foreign exchange	1,901	-	6	564	-	-
Total	**10,590**	**73**	**77**	**10,567**	**52**	**52**

	BANK					
	2016			2017		
in HRK million	Notional value	Positive fair value	Negative fair value	Notional value	Positive fair value	Negative fair value
Derivatives held in the trading book	**5,821**	**76**	**71**	**8,451**	**55**	**49**
Interest rate	529	9	5	934	7	3
Foreign exchange	5,292	67	66	7,517	48	46
Derivatives held in the banking book	**4,924**	**-**	**5**	**2,442**	**-**	**3**
Interest rate	3,023		-	1,878	-	3
Foreign exchange	1,901	-	5	564	-	-
Total	**10,745**	**76**	**76**	**10,893**	**55**	**52**

13. Other trading assets

	GROUP		BANK	
in HRK million	**2016**	**2017**	**2016**	**2017**
Equity instruments	-	-	-	-
Debt securities	-	195	-	195
General governments	-	195	-	195
Other trading assets	**-**	**195**	**-**	**195**

Financial assets and liabilities held for trading are measured at fair value based on quoted prices. In circumstances where quoted market prices are not readily available, the fair value of those securities is estimated using the present value of future cash flows.
As of 31 December 2016 there is no financial assets held for trading. As of 31 December 2017 financial assets held for trading are Treasury bills of the Croatian Ministry of Finance with maturity in 2019, and with interest rate of 0.096%.

14. Financial assets - available for sale

	GROUP		BANK	
in HRK million	**2016**	**2017**	**2016**	**2017**
Equity instruments	266	262	123	116
Debt securities	7,566	7,756	7,131	7,352
General governments	6,647	7,070	6,212	6,665
Credit institutions	378	529	378	530
Other financial corporations	322	-	322	-
Non-financial corporations	219	157	219	157
Financial assets - available for sale	**7,832**	**8,018**	**7,254**	**7,468**

Debt securities include bonds issued by the Republic of Croatia and treasury bills issued by the Croatian Ministry of Finance.

Treasury bills of the Croatian Ministry of Finance are HRK and EUR denominated debt securities issued at a discount to nominal. These securities are issued with original maturities of 91, 182, 364, 546 and 728 days.
During 2016, the average interest yields on HRK denominated treasury bills were 0.42% for treasury bills with a maturity of 91 days, 0.46% for treasury bills with a maturity of 181 days and 1.25% for treasury bills with a maturity of 364 days. The average interest yields on the currency clause EUR denominated treasury bills were 0.20% for treasury bills with a maturity of 91 days and 0.32% for treasury bills with a maturity of 364 days. The average interest yields on EUR treasury bills were 1.33% for treasury bills with a maturity of 546 days.
During 2017, the average interest yields on HRK denominated treasury bills were 0.20% for treasury bills with a maturity of 91 days, 0.28% for treasury bills with a maturity of 181 days and 0.72% for treasury bills with a maturity of 364 days. The average interest yields on the currency clause EUR denominated treasury bills were 0.16% for treasury bills with a maturity of 364 days. The average interest yields on EUR treasury bills were 0.40% for treasury bills with a maturity of 546 days.
Bonds of the Republic of Croatia are HRK, EUR and USD denominated fixed income debt securities listed at stock exchanges. These bonds have maturities from 2018 to 2023 and bear coupon interest from 1.750% to 6.750% p.a.

Bonds of Republic of Poland are fixed income debt securities denominated in USD and listed on stock exchanges. These bonds have maturity in 2019 and bear coupon interest of 6.375% p.a. Bonds of Montenegro are fixed income debt securities denominated in EUR and listed on stock exchanges. These bonds have maturity in 2019 and bear coupon interest of 5.375% p.a. Bonds of Republic of Slovakia are fixed income debt securities denominated in EUR and listed on stock exchanges. These bonds have maturities in 2018 and bear coupon interest of 1.500% p.a. Bonds of United States of America are fixed income debt securities denominated in USD and listed on stock exchanges. These bonds have maturity in 2018 and bear coupon interest from 0.750% to 0.875% p.a.

14. Financial assets - available for sale (continued)

Also, in financial investments available for sale are bonds issued by European Investment Bank with maturity in 2019 and with coupon interest of 1.250% p.a. and also bonds issued by KfW Bank with maturities from 2019 to 2020 and with coupon interest from 1.500% to 1.875% p.a.

Treasury bills of the Croatian Ministry of Finance with maturity in 2019, and with interest rate from of 0.096% are EUR denominated fixed income debt securities.
Financial investments available for sale are measured at fair value based on quoted prices. In circumstances where quoted market prices are not readily available, the fair value of these securities is estimated using the present value of future cash flows.

Reclassifications out of available for sale

The Group decided to keep EUR 60 million bond until maturity. The bond is also pledged as collateral until maturity. Because of these reasons the Group made reclassification from financial asset available for sale to financial asset held until maturity in amount of EUR 67 million fair value on 31 December 2014 (EUR 60 million nominal value).

The reclassification was made with effect from 31 December 2014 at fair value at that date. The table below sets out the financial assets reclassified and their carrying and fair values.

			2016		2017
in HRK million	Amounts reclassified	Carrying amount	Fair value	Carrying amount	Fair value
Debt securities reclassified from Available for sale to Held to maturity	508	474	496	458	464

The table below sets out the amount actually recognised in profit or loss and OCI in respect of the financial assets reclassified out of available-for-sale debt securities.

		2016		2017
in HRK million	Profit or loss	OCI	Profit or loss	OCI
Debt securities reclassified from Available for sale to held to maturity				
Interest income	28	-	28	-
Net change in fair value	-	-	-	-
Amount transferred from fair value reserve to profit or loss	-	(15)	-	(15)
Total	**28**	**(15)**	**28**	**(15)**

The table below sets out the amounts that would have been recognised if the reclassifications had not been made.

		2016		2017
in HRK million	Profit or loss	OCI	Profit or loss	OCI
Debt securities reclassified from Available for sale to held to maturity				
Interest income	13	-	13	-
Net change in fair value	-	(3)	-	(32)
Amount transferred from fair value reserve to profit or loss	-	-	-	-
Total	**13**	**(3)**	**13**	**(32)**

15. Financial assets - held to maturity

GROUP

in HRK million	Gross carrying amount 2016	Gross carrying amount 2017	Collective allowances 2016	Collective allowances 2017	Net carrying amount 2016	Net carrying amount 2017
Debt securities						
General governments	1,502	1,727	(4)	(4)	1,498	1,723
Non-financial corporations	159	159	(4)	(4)	155	155
Total	**1,661**	**1,886**	**(8)**	**(8)**	**1,653**	**1,878**

BANK

in HRK million	Gross carrying amount 2016	Gross carrying amount 2017	Collective allowances 2016	Collective allowances 2017	Net carrying amount 2016	Net carrying amount 2017
Debt securities						
General governments	983	1,237	(1)	(1)	982	1,236
Non-financial corporations	159	159	(4)	(4)	155	155
Total	**1,142**	**1,396**	**(5)**	**(5)**	**1,137**	**1,391**

Listed bonds issued by the Republic of Croatia are fixed income debt securities denominated in HRK, EUR and USD. These bonds have maturities from 2018 to 2023 and bear coupon interest from 1.750% to 6.750% p.a. Bonds of Montenegro are fixed income debt securities denominated in EUR and listed on stock exchanges. These bonds have maturity in 2020 and bear coupon interest of 4.000% p.a. Bonds of Zagrebački Holding are fixed income debt securities denominated in HRK and listed on stock exchanges. These bonds have maturity in 2023 and bear coupon interest of 3.875% p.a.

The fair value of financial investments held to maturity for the Group and the Bank is approximately HRK 46 million higher than their value as at 31 December 2017 (2016: HRK 51 million higher).

Allowances for financial assets – held to maturity

GROUP

in HRK million	As at	Allocations	Uses	Releases	Exchange-rate and other changes (+/-)	As at
	2016					**2017**
Collective allowances						
Debt securities	(8)	-	-	-	-	(8)
General governments	(4)	-	-	-	-	(4)
Non-financial corporations	(4)	-	-	-	-	(4)
Total	**(8)**	**-**	**-**	**-**	**-**	**(8)**
Collective allowances	**2015**					**2016**
Debt securities	(1)	(7)	-	-	-	(8)
General governments	(1)	(3)	-	-	-	(4)
Non-financial corporations	-	(4)	-	-	-	(4)
Total	**(1)**	**(7)**	**-**	**-**	**-**	**(8)**

BANK

in HRK million	As at	Allocations	Uses	Releases	Exchange-rate and other changes (+/-)	As at
	2016					**2017**
Collective allowances						
Debt securities	(5)	-	-	-	-	(5)
General governments	(1)	-	-	-	-	(1)
Non-financial corporations	(4)	-	-	-	-	(4)
Total	**(5)**	**-**	**-**	**-**	**-**	**(5)**
Collective allowances	**2015**					**2016**
Debt securities	(1)	(4)	-	-	-	(5)
General governments	(1)	-	-	-	-	(1)
Non-financial corporations	-	(4)	-	-	-	(4)
Total	**(1)**	**(4)**	**-**	**-**	**-**	**(5)**

16. Securities

GROUP

in HRK million	Loans to and receivables from customers and credit institutions 2016	2017	Held for trading 2016	2017	Available for sale 2016	2017	Held to maturity 2016	2017	Total 2016	2017
			Financial assets							
Bonds and other interest-bearing securities	**-**	**-**	**-**	**195**	**7,566**	**7,756**	**1,653**	**1,878**	**9,219**	**9,829**
Listed	-	-	-	195	7,444	7,566	1,653	1,878	9,097	9,639
Unlisted	-	-	-	-	122	190	-	-	122	190
Equity-related securities	**-**	**-**	**-**	**-**	**245**	**243**	**-**	**-**	**245**	**243**
Listed	-	-	-	-	206	146	-	-	206	146
Unlisted	-	-	-	-	39	97	-	-	39	97
Equity holdings	**-**	**-**	**-**	**-**	**21**	**19**	**-**	**-**	**21**	**19**
Total	**-**	**-**	**-**	**195**	**7,832**	**8,018**	**1,653**	**1,878**	**9,485**	**10,091**

BANK

in HRK million	Loans to and receivables from customers and credit institutions 2016	2017	Held for trading 2016	2017	Available for sale 2016	2017	Held to maturity 2016	2017	Total 2016	2017
			Financial assets							
Bonds and other interest-bearing securities	**-**	**-**	**-**	**195**	**7,131**	**7,352**	**1,137**	**1,391**	**8,268**	**8,938**
Listed	-	-	-	195	7,009	7,275	1,137	1,391	8,146	8,861
Unlisted	-	-	-	-	122	77	-	-	122	77
Equity-related securities	**-**	**-**	**-**	**-**	**102**	**97**	**-**	**-**	**102**	**97**
Listed	-	-	-	-	69	8	-	-	69	8
Unlisted	-	-	-	-	33	89	-	-	33	89
Equity holdings	**-**	**-**	**-**	**-**	**21**	**19**	**-**	**-**	**21**	**19**
Total	**-**	**-**	**-**	**195**	**7,254**	**7,468**	**1,137**	**1,391**	**8,391**	**9,054**

Investment funds are disclosed within equity-related securities.

Held-to-maturity financial assets include bonds and other interest-bearing securities that are quoted in active markets and are intended to be held to maturity.

Securities lending and repurchase transactions are disclosed in Note 32 Transfers of financial assets-repurchase transactions and securities lending.

17. Loans to and receivables from credit institutions

Loans to and receivables from credit institutions

in HRK million	Gross carrying amount	Specific allowances	Collective allowances	Net carrying amount
				GROUP
2017				
Loans and advances	5,235	-	(2)	5,233
Central banks	3,417	-	(1)	3,416
Credit institutions	1,818	-	(1)	1,817
Total	**5,235**	**-**	**(2)**	**5,233**
2016				
Loans and advances	5,332	-	(3)	5,329
Central banks	3,132	-	(1)	3,131
Credit institutions	2,200	-	(2)	2,198
Total	**5,332**	**-**	**(3)**	**5,329**

Allowances for loans to and receivables from credit institutions

in HRK million	As at	Allocations	Use	Releases	Interest income from impaired loans	Exchange-rate and other changes (+/-)	As at	Amounts written off	Recoveries of amounts previously written off
									GROUP
	2016						**2017**		
Specific allowances									
Loans and advances	-	(2)	-	2	-	-	-	-	-
Credit institutions	-	(2)	-	2	-	-	-	-	-
Collective allowances									
Loans and advances	(3)	(15)	-	16	-	-	(2)	-	-
Central banks	(1)	-	-	-	-	-	(1)	-	-
Credit institutions	(2)	(15)	-	16	-	-	(1)	-	-
Total	**(3)**	**(17)**	**-**	**18**	**-**	**-**	**(2)**	**-**	**-**
	2015						**2016**		
Collective allowances									
Loans and advances	(3)	(17)	-	17	-	-	(3)	-	-
Central banks	(2)	-	-	1	-	-	(1)	-	-
Credit institutions	(1)	(17)	-	16	-	-	(2)	-	-
Total	**(3)**	**(17)**	**-**	**17**	**-**	**-**	**(3)**	**-**	**-**

17. Loans to and receivables from credit institutions (continued)

Loans to and receivables from credit institutions

				BANK
in HRK million	Gross carrying amount	Specific allowances	Collective allowances	Net carrying amount
2017				
Loans and advances	5,134	-	(2)	5,132
Central banks	3,324	-	(1)	3,323
Credit institutions	1,810	-	(1)	1,809
Total	**5,134**	**-**	**(2)**	**5,132**
2016				
Loans and advances	5,322	-	(2)	5,320
Central banks	3,132	-	(1)	3,131
Credit institutions	2,190	-	(1)	2,189
Total	**5,322**	**-**	**(2)**	**5,320**

With respect to the Decision on Reserve Requirement imposed by the CNB, the Bank is obliged to calculate and maintain an obligatory reserve for sources of funding. Received deposits and loans, issued debt securities, hybrid and subordinated instruments and other financial liabilities are the base for reserve requirement calculation. Calculation period lasts from the first to the last day of a calendar month.

The reserve requirement calculation rate is 12%.
In the calculation, 75% of total calculated foreign currency obligatory reserve is included into calculated HRK component of reserve requirement and is allocated in HRK.
The percentage for allocating HRK reserve requirements on special account with the CNB amounts 70%, while the remaining portion of the amount, 30% shall be maintained through average daily balances in the settlement account and in the clearing account with the NCS. Percentage for allocating foreign currency (FCY) reserve requirement amounts 0%, while maintenance shall be carried out through average daily balances of liquid foreign currency claims against OECD countries and credit institutions in OECD countries (with lowest rating criteria as defined by CNB), funds in own foreign currency settlement accounts with the CNB and foreign currency cash and cheques denominated in FCY.

Allowances for loans to and receivables from credit institutions

									BANK
in HRK million	As at	Allocations	Use	Releases	Interest income from impaired loans	Exchange-rate and other changes (+/-)	As at	Amounts written off	Recoveries of amounts previously written off
	2016						**2017**		
Specific allowances									
Loans and advances	-	(2)	-	2	-	-	-	-	-
Credit institutions	-	(2)	-	2	-	-	-	-	-
Collective allowances									
Loans and advances	(2)	(15)	-	15	-	-	(2)	-	-
Central banks	(1)	-	-	-	-	-	(1)	-	-
Credit institutions	(1)	(15)	-	15	-	-	(1)	-	-
Total	**(2)**	**(17)**	**-**	**17**	**-**	**-**	**(2)**	**-**	**-**
	2015						**2016**		
Collective allowances									
Loans and advances	(3)	(17)	-	18	-	-	(2)	-	-
Central banks	(2)	-	-	1	-	-	(1)	-	-
Credit institutions	(1)	(17)	-	17	-	-	(1)	-	-
Total	**(3)**	**(17)**	**-**	**18**	**-**	**-**	**(2)**	**-**	**-**

18. Loans to and receivables from customers

Loans to and receivables from customers

in HRK million	Gross carrying amount	Specific allowances	Collective allowances	Net carrying amount
				GROUP
2017				
Loans and advances to customers	47,432	(3,645)	(490)	43,297
General governments	7,933	-	(25)	7,908
Other financial corporations	801	(3)	(3)	795
Non-financial corporations	18,319	(2,385)	(276)	15,658
Households	20,379	(1,257)	(186)	18,936
Total	**47,432**	**(3,645)**	**(490)**	**43,297**
2016				
Loans and advances to customers	47,511	(3,376)	(479)	43,656
General governments	10,357	(1)	(27)	10,329
Other financial corporations	471	(7)	(3)	461
Non-financial corporations	17,099	(2,005)	(268)	14,826
Households	19,584	(1,363)	(181)	18,040
Total	**47,511**	**(3,376)**	**(479)**	**43,656**

Allowances for loans to and receivables from customers

in HRK million	As at	Allocations	Use	Releases	Interest income from impaired loans	Exchange-rate and other changes(+/-)	As at	Recoveries of amounts previously written off	Amounts written off
									GROUP
	2016						**2017**		
Specific allowances									
Loans and advances to customers	(3,376)	(1,854)	634	866	69	16	(3,645)	140	(7)
General governments	(1)	-	-	1	-	-	-	-	-
Other financial corporations	(7)	(52)	51	5	-	-	(3)	-	-
Non-financial corporations	(2,005)	(1,327)	389	504	30	24	(2,385)	39	(2)
Households	(1,363)	(475)	194	356	39	(8)	(1,257)	101	(5)
Collective allowances									
Loans and advances to customers	(479)	(669)	-	662	-	(4)	(490)	-	-
General governments	(27)	(8)	-	10	-	-	(25)	-	-
Other financial corporations	(3)	(14)	-	14	-	-	(3)	-	-
Non-financial corporations	(268)	(365)	-	360	-	(3)	(276)	-	-
Households	(181)	(282)	-	278	-	(1)	(186)	-	-
Total	**(3,855)**	**(2,523)**	**634**	**1,528**	**69**	**12**	**(4,135)**	**140**	**(7)**
	2015						**2016**		
Specific allowances									
Loans and advances to customers	(4,844)	(1,431)	1,838	928	95	38	(3,376)	162	(6)
General governments	-	(1)	-	-	-	-	(1)	-	-
Other financial corporations	(2)	(7)	1	1	-	-	(7)	-	-
Non-financial corporations	(2,941)	(849)	1,276	434	52	23	(2,005)	58	(2)
Households	(1,901)	(574)	561	493	43	15	(1,363)	104	(4)
Collective allowances									
Loans and advances to customers	(468)	(707)	-	697	-	(1)	(479)	-	-
General governments	(25)	(11)	-	9	-	-	(27)	-	-
Other financial corporations	(6)	(41)	-	43	-	1	(3)	-	-
Non-financial corporations	(267)	(346)	-	347	-	(2)	(268)	-	-
Households	(170)	(309)	-	298	-	-	(181)	-	-
Total	**(5,312)**	**(2,138)**	**1,838**	**1,625**	**95**	**37**	**(3,855)**	**162**	**(6)**

18. Loans to and receivables from customers (continued)

Loans to and receivables from customers

				BANK
in HRK million	Gross carrying amount	Specific allowances	Collective allowances	Net carrying amount
2017				
Loans and advances to customers	39,626	(2,746)	(368)	36,512
General governments	7,647	-	(23)	7,624
Other financial corporations	1,155	(2)	(2)	1,151
Non-financial corporations	14,354	(1,782)	(244)	12,328
Households	16,470	(962)	(99)	15,409
Total	**39,626**	**(2,746)**	**(368)**	**36,512**
2016				
Loans and advances to customers	39,390	(2,787)	(349)	36,254
General governments	9,657	-	(26)	9,631
Other financial corporations	1,042	(2)	(5)	1,035
Non-financial corporations	12,818	(1,803)	(218)	10,797
Households	15,873	(982)	(100)	14,791
Total	**39,390**	**(2,787)**	**(349)**	**36,254**

Allowances for loans to and receivables from customers

									BANK
in HRK million	As at	Allocations	Use	Releases	Interest income from impaired loans	Exchange-rate and other changes (+/-)	As at	Recoveries of amounts previously written off	Amounts written off
	2016						**2017**		
Specific allowances									
Loans and advances to customers	(2,787)	(1,050)	452	544	64	31	(2,746)	94	(5)
General governments	-	-	-	-	-	-	-	-	-
Other financial corporations	(2)	-	-	-	-	-	(2)	-	-
Non-financial corporations	(1,803)	(666)	340	298	28	21	(1,782)	34	(2)
Households	(982)	(384)	112	246	36	10	(962)	60	(3)
Collective allowances									
Loans and advances to customers	(349)	(525)	-	506	-	-	(368)	-	-
General governments	(26)	(6)	-	9	-	-	(23)	-	-
Other financial corporations	(5)	(15)	-	18	-	-	(2)	-	-
Non-financial corporations	(218)	(286)	-	260	-	-	(244)	-	-
Households	(100)	(218)	-	219	-	-	(99)	-	-
Total	**(3,136)**	**(1,575)**	**452**	**1,050**	**64**	**31**	**(3,114)**	**94**	**(5)**
	2015						**2016**		
Specific allowances									
Loans and advances to customers	(3,999)	(1,254)	1,561	778	92	35	(2,787)	110	(4)
General governments	-	-	-	-	-	-	-	-	-
Other financial corporations	(2)	(1)	1	-	-	-	(2)	-	-
Non-financial corporations	(2,621)	(812)	1,150	406	51	23	(1,803)	52	(2)
Households	(1,376)	(441)	410	372	41	12	(982)	58	(2)
Collective allowances									
Loans and advances to customers	(360)	(561)	-	571	-	1	(349)	-	-
General governments	(23)	(11)	-	8	-	-	(26)	-	-
Other financial corporations	(5)	(46)	-	45	-	1	(5)	-	-
Non-financial corporations	(214)	(259)	-	255	-	-	(218)	-	-
Households	(118)	(245)	-	263	-	-	(100)	-	-
Total	**(4,359)**	**(1,815)**	**1,561**	**1,349**	**92**	**36**	**(3,136)**	**110**	**(4)**

19. Investment in subsidiaries and associates

Subsidiaries	Main business activity	Ownership % held		Group's share of net assets		Investment at cost less impairment	
in HRK million		2016	2017	2016	2017	2016	2017
Erste Nekretnine d.o.o.	Real estate business	100%	100%	4	5	1	1
Erste Factoring d.o.o.	Accounts receivables repurchase	74,996%	74,996%	394	23	38	17
Erste Card Club d.o.o.	Financial intermediation and services	100%	100%	829	907	703	703
Izbor Nekretnina d.o.o.	Real estate management and lease	100%	100%	40	40	39	39
Erste Bank A.D., Podgorica	Credit institution	100%	100%	454	512	100	100
Erste&Steiermarkische S-leasing d.o.o.	Leasing company	50%	50%	271	299	89	89
Erste Group IT HR d.o.o.	IT engineering	80%	80%	5	7	2	2
Direct control				1,997	1,793	972	951
Erste Card d.o.o. Slovenia	Financial intermediation and services	100%	100%	16	18	24	24
Diners Club International Mak d.o.o.e.l.	Financial intermediation and services	-	100%	-	(3)	-	7
Indirect control				16	15	24	31
Total subsidiaries:				**2,013**	**1,808**	**996**	**982**

The following subsidiaries have non material Non-Controlling Interest (NCI):

- Erste Factoring (25.004%)
- Erste & Steiermarkische S-leasing d.o.o. (50%)
- Erste Group IT HR d.o.o. (20%)

The Group does not have significant restrictions on its ability to access or use its assets and settle its liabilities other than those resulting from the supervisory frameworks within which banking subsidiaries operate. The supervisory frameworks require banking subsidiaries to keep certain levels of regulatory capital and liquid assets, limit their exposure to other parts of the Group and comply with other ratios.
Impairment losses on investment in subsidiaries in the amount of HRK 28 million were recognised during 2017 and HRK 53 million during 2016. Impairment in 2017 was allocated on the investment in Erste Factoring d.o.o. in amount of HRK 21 million and HRK 7 million on Diners Club International Mak d.o.o.e.l. In 2016 impairment was allocated on the investment in Erste Card Club d.o.o.

Associates	S Immorent Zeta d.o.o.		Immokor Buzin d.o.o.		Erste d.o.o.	
in HRK million	2016	2017	2016	2017	2016	2017
Country of Incorporation	Croatia	Croatia	Croatia	Croatia	Croatia	Croatia
Place of business	Croatia	Croatia	Croatia	Croatia	Croatia	Croatia
Main business activity	Real estate business		Real estate business		Management company for obligatory and voluntary pension fund	
Ownership % held	49%	49%	49%	-	45.86%	45.86%
IFRS Classification	Associate	Associate	Associate	Associate	Associate	Associate
Reporting currency	HRK	HRK	HRK	HRK	HRK	HRK
Dividend income received	-	-	-	-	10	9
Impairment loss recognized (cumulative basis)	-	12	34	52	-	-
Impairment loss recognized (for the reporting year)	-	12	-	18	-	-
Investee's key financial information for the reporting year (as at reporting-year-end)						
Financial assets	1	-	2	-	102	106
Other assets	1	1	36	-	14	13
Financial liabilities	(25)	(1)	(83)	-	-	-
Other liabilities	-	-	-	-	(7)	(9)
Revenue	1	-	1	-	64	70
Expense	(7)	-	(35)	-	(43)	(46)
Investment at cost	-	-	-	-	38	38
Reconciliation of investee's net assets against equity investment's carrying amount	-	-	-	-	21	22
Net assets attributable to the Group	-	-	-	-	59	60

20. Property, equipment and Investment properties

A) COST

GROUP

in HRK million	Land and buildings	Office and plant equipment / other fixed assets	IT assets (hardware)	Movable other property	Property and equipment	Investment properties
	Property and equipment - Acquisition costs					
Balance as at 1 January 2016	**765**	**310**	**163**	**929**	**2,167**	**33**
Additions (+)	109	24	43	227	403	40
Disposals (-)	(26)	(24)	(25)	(254)	(329)	-
Acquisition of subsidiaries (+)	-	1	110	-	111	-
Reclassification (+/-)	-	-	-	-	-	-
Balance as at 31 December 2016	**848**	**311**	**291**	**902**	**2,352**	**73**
Additions (+)	32	42	54	117	245	2
Disposals (-)	(1)	(27)	(43)	(297)	(368)	(16)
Acquisition of subsidiaries (+)	4	2	2	-	8	-
Reclassification (+/-)	(10)	(1)	2	(2)	(11)	11
Balance as at 31 December 2017	**873**	**327**	**306**	**720**	**2,226**	**70**

B) ACCUMULATED DEPRECIATION

GROUP

in HRK million	Land and buildings	Office and plant equipment / other fixed assets	IT assets (hardware)	Movable other property	Property and equipment	Investment properties
	Property and equipment - Accumulated depreciation					
Balance as at 1 January 2016	**(235)**	**(235)**	**(124)**	**(352)**	**(946)**	**(13)**
Depreciation (-)	(16)	(20)	(27)	(146)	(209)	(1)
Disposals (+)	10	14	19	143	186	-
Acquisition of subsidiaries (-)	-	-	(77)	-	(77)	-
Reclassification (+/-)	-	(1)	4	-	3	-
Balance as at 31 December 2016	**(241)**	**(242)**	**(205)**	**(355)**	**(1,043)**	**(14)**
Depreciation (-)	(17)	(21)	(32)	(120)	(190)	(2)
Disposals (+)	-	25	43	204	272	-
Acquisition of subsidiaries (-)	(1)	(1)	(2)	-	(4)	-
Reclassification (+/-)	1	-	-	-	1	(1)
Balance as at 31 December 2017	**(258)**	**(239)**	**(196)**	**(271)**	**(964)**	**(17)**

C) CARRYING AMOUNTS

GROUP

in HRK million	Land and buildings	Office and plant equipment / other fixed assets	IT assets (hardware)	Movable other property	Property and equipment	Investment properties
	Property and equipment					
Balance as at 31 December 2016	**607**	**69**	**86**	**547**	**1,309**	**59**
Balance as at 31 December 2017	**615**	**88**	**110**	**449**	**1,262**	**53**

20. Property, equipment and Investment properties (continued)

A) COST

						BANK
	Property and equipment - Acquisition costs					
in HRK million	Land and buildings	Office and plant equipment / other fixed assets	IT assets (hardware)	Movable other property	Property and equipment	Investment properties
Balance as at 1 January 2016	**688**	**261**	**82**	**-**	**1,031**	**30**
Additions (+)	7	18	19	-	44	19
Disposals (-)	-	(19)	(13)	-	(32)	-
Reclassification (+/-)	-	1	(1)	-	-	-
Balance as at 31 December 2016	**695**	**261**	**87**	**-**	**1,043**	**49**
Additions (+)	11	29	35	-	75	-
Disposals (-)	(2)	(19)	(18)	-	(39)	(15)
Balance as at 31 December 2017	**704**	**271**	**104**	**-**	**1,079**	**34**

B) ACCUMULATED DEPRECIATION

						BANK
	Property and equipment - Accumulated depreciation					
in HRK million	Land and buildings	Office and plant equipment / other fixed assets	IT assets (hardware)	Movable other property	Property and equipment	Investment properties
Balance as at 1 January 2016	**(208)**	**(201)**	**(77)**	**-**	**(486)**	**(12)**
Depreciation (-)	(15)	(15)	(3)	-	(33)	(1)
Disposals (+)	-	11	13	-	24	-
Balance as at 31 December 2016	**(223)**	**(205)**	**(67)**	**-**	**(495)**	**(13)**
Depreciation (-)	(15)	(16)	(7)	-	(38)	(1)
Disposals (+)	1	17	19	-	37	-
Balance as at 31 December 2017	**(237)**	**(204)**	**(55)**	**-**	**(496)**	**(14)**

C) CARRYING AMOUNTS

						BANK
	Property and equipment					
in HRK million	Land and buildings	Office and plant equipment / other fixed assets	IT assets (hardware)	Movable other property	Property and equipment	Investment properties
Balance as at 31 December 2016	**472**	**56**	**20**	**-**	**548**	**36**
Balance as at 31 December 2017	**467**	**67**	**49**	**-**	**583**	**20**

The carrying amount of expenditure recognised in the items fixed assets during their construction in 2017 is HRK 19 million for the Group and the Bank (2016: HRK 103 million and HRK 11 million for the Group and the Bank respectively). The contractual commitments for purchase of fixed assets are HRK 4 million for the Group and the Bank as at 31 December 2017 (2016 HRK 9 million for the Group and HRK 8 million for the Bank).
Tangible asset under operating leasing in Erste Leasing amounted to HRK 451 million as at 31 December 2017 (2016: HRK 547 million).

21. Intangible assets

A) COST

in HRK million	Goodwill	Customer relationships	Software acquired	Others (licenses, patents, etc.)	Total
	GROUP				
	Acquisition costs				
Balance as at 1 January 2016	**603**	**181**	**213**	**92**	**1,089**
Additions (+)	-	-	55	10	65
Disposals (-)	-	-	(4)	(19)	(23)
Acquisition of subsidiaries (+)	-	-	31	3	34
Reclassification (+/-)	-	-	(46)	58	12
Balance as at 31 December 2016	**603**	**181**	**249**	**144**	**1,177**
Additions (+)	4	-	20	26	50
Disposals (-)	-	-	(1)	(9)	(10)
Acquisition of subsidiaries (+)	-	-	-	2	2
Reclassification (+/-)	-	-	(51)	51	-
Balance as at 31 December 2017	**607**	**181**	**217**	**214**	**1,219**

B) ACCUMULATED AMORTIZATION

in HRK million	Goodwill	Customer relationships	Software acquired	Others (licenses, patents, etc.)	Total
	GROUP				
	Accumulated depreciation				
Balance as at 1 January 2016	**(334)**	**(181)**	**(109)**	**(56)**	**(680)**
Amortisation (-)	-	-	(14)	(12)	(26)
Disposals (+)	-	-	8	1	9
Acquisition of subsidiaries (-)	-	-	(19)	(3)	(22)
Impairment (-)	(53)	-	-	-	(53)
Reclassification (+/-)	-	-	28	(43)	(15)
Balance as at 31 December 2016	**(387)**	**(181)**	**(106)**	**(113)**	**(787)**
Amortisation (-)	-	-	(19)	(17)	(36)
Disposals (+)	-	-	-	2	2
Acquisition of subsidiaries (-)	-	-	-	(1)	(1)
Impairment (-)	(4)	-	-	-	(4)
Reclassification (+/-)	-	-	17	(17)	-
Balance as at 31 December 2017	**(391)**	**(181)**	**(108)**	**(146)**	**(826)**

C) CARRYING AMOUNTS

in HRK million	Goodwill	Customer relationships	Software acquired	Others (licenses, patents, etc.)	Total
	GROUP				
Balance as at 31 December 2016	**216**	**-**	**143**	**31**	**390**
Balance as at 31 December 2017	**216**	**-**	**109**	**68**	**393**

Goodwill and customer relationship carrying amount in whole relates to Erste Card Club d.o.o. In 2017 Erste Card Club d.o.o. acquire new subsidiary Diners Club International MAK d.o.o.e.l. where initial goodwill was recognized in the amount of HRK 4 million that was 100 % impaired in 2017.

21. Intangible assets (continued)

A) AT COST

					BANK
		Acquisition costs			
in HRK million	Goodwill	Customer relationships	Software acquired	Others (licenses, patents, etc.)	Total
Balance as at 1 January 2016	**-**	**-**	**120**	**81**	**201**
Additions (+)	-	-	41	5	46
Disposals (-)	-	-	-	(1)	(1)
Reclassification (+/-)	-	-	-	-	-
Balance as at 31 December 2016	**-**	**-**	**161**	**85**	**246**
Additions (+)	-	-	11	9	20
Disposals (-)	-	-	-	-	-
Reclassification (+/-)	-	-	-	-	-
Balance as at 31 December 2017	**-**	**-**	**172**	**94**	**266**

B) ACCUMULATED AMORTIZATION

					BANK
		Accumulated depreciation			
in HRK million	Goodwill	Customer relationships	Software acquired	Others (licenses, patents, etc.)	Total
Balance as at 1 January 2016	**-**	**-**	**(61)**	**(68)**	**(129)**
Amortisation (-)	-	-	(5)	(3)	(8)
Disposals (+)	-	-	-	1	1
Reclassification (+/-)	-	-	-	-	-
Balance as at 31 December 2016	**-**	**-**	**(66)**	**(70)**	**(136)**
Amortisation (-)	-	-	(16)	(3)	(19)
Disposals (+)	-	-	-	-	-
Reclassification (+/-)	-	-	-	-	-
Balance as at 31 December 2017	**-**	**-**	**(82)**	**(73)**	**(155)**

C) CARRYING AMOUNTS

					BANK
in HRK million	Goodwill	Customer relationships	Software acquired	Others (licenses, patents, etc.)	Total
Balance as at 31 December 2016	**-**	**-**	**95**	**15**	**110**
Balance as at 31 December 2017	**-**	**-**	**90**	**21**	**111**

Software acquired column relates to core banking system. Increase in 2016 relates to the optimization and new features of core banking system.

21. Intangible assets (continued)

Goodwill

The goodwill impairment assessment for the year 2017 and 2016 addressed the subsidiary Erste Card Club d.o.o. (CGU).

For these purposes we used discounted cash flow method, based on budgeted figures of Erste Card Club d.o.o. for the period of 2017 till 2022. Discount rate applied to determine the value in use was 12.56% (2016: 12.88%). Erste Card Club d.o.o. predicts a stable and moderate growth in operating revenues / profits in the next five years, but Management considers period after the year 2022 as significantly challengeable. Low rates of macroeconomic growth and low domestic CPI, increased regulatory requirements, development of new technologies together with digitalisation which represents a high challenge for credit card business and new foreign competition will impact the profitability of credit card operations after 2022. Due to these expectations the Management reduced the estimate of terminal growth rate which resulted in impairment of its investment in this subsidiary and an impairment of goodwill of Erste Card Club d.o.o. in consolidated financial statements in amount of HRK 53 million in 2016. In 2017 no impairment loss was identified for Erste Card Club d.o.o.

The following table shows the sensitivity analysis of the recoverable value dependent of investment in Erste Card Club d.o.o. for 2017 and 2016 on the main variables (terminal growth rate, beta factor and risk free rate):

2017		Risk free rate	
Beta Factor	0.3%	1.3%	2.3%
0.8	1,641	1,497	1,381
1.1	1,371	**1,278**	1,201
1.4	1,194	1,129	1,074

2017		Risk free rate	
TV growth rate	0.3%	1.3%	2.3%
2%	1,339	1,253	1,181
3%	1,374	**1,278**	1,199
4%	1,420	1,309	1,220

Amount by which recoverable amount exceeds carrying amount in 2017 for Erste Card Club d.o.o. is HRK 175 million.

2016		Risk free rate	
Beta Factor	(0.1)%	0.9%	1.9%
0.8	1,268	1,172	1,094
1.1	1,087	**1,024**	971
1.4	966	921	881

2016		Risk free rate	
TV growth rate	(0.1)%	0.9%	1.9%
1.9%	1,076	1,017	967
2.9%	1,089	**1,024**	970
3.9%	1,105	1,033	975

22. Tax assets and liabilities

GROUP

in HRK million	Tax assets 2016	Tax assets 2017	Tax liabilities 2016	Tax liabilities 2017	Net variance 2017 Total	Net variance 2017 Through profit or loss	Net variance 2017 Through other compre-hensive income
Temporary differences relate to the following items:							
Loans and advances to credit institutions and customers	133	187	-	-	54	54	-
Financial assets - available for sale	-	-	(56)	(54)	2	(2)	4
Property and equipment	1	1	-	(1)	(1)	(1)	-
Investments in subsidiaries, joint ventures and associates	76	82	-	-	6	6	-
Long-term employee provisions	1	1	-	-	-	-	-
Sundry provisions	2	2	-	-	-	-	-
Carry forward of tax losses	1	-	-	-	(1)	(1)	-
Customer relationships and brand	-	-	-	-	-	-	-
Other	61	14	(2)	-	(45)	(45)	-
Effect of netting gross deferred tax position	(56)	(53)	56	53	-	-	-
Total deferred taxes	**219**	**234**	**(2)**	**(2)**	**15**	**11**	**4**
Current taxes	**30**	**17**	**(12)**	**(139)**			
Total taxes	**249**	**251**	**(14)**	**(141)**			

BANK

in HRK million	Tax assets 2016	Tax assets 2017	Tax liabilities 2016	Tax liabilities 2017	Net variance 2017 Total	Net variance 2017 Through profit or loss	Net variance 2017 Through other compre-hensive income
Temporary differences relate to the following items:							
Loans and advances to credit institutions and customers	25	21	-	-	(4)	(4)	-
Financial assets - available for sale	-	-	(50)	(47)	3	(1)	4
Investments in subsidiaries, joint ventures and associates	76	74	-	-	(2)	(2)	-
Long-term employee provisions	-	1	-	-	1	1	-
Sundry provisions	1	1	-	-	-	-	-
Carry forward of tax losses	-	-	-	-	-	-	-
Other	38	38	-	-	-	-	-
Effect of netting gross deferred tax position	(50)	(47)	50	47	-	-	-
Total deferred taxes	**90**	**88**	**-**	**-**	**(2)**	**(6)**	**4**
Current taxes	**10**	**-**	**-**	**(132)**			
Total taxes	**100**	**88**	**-**	**(132)**			

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Temporary differences as at 31 December 2017 and 2016 relate mostly to different methods of income and expense recognition as well as to recorded values of certain assets.

23. Other assets

	GROUP		BANK	
in HRK million	**2016**	**2017**	**2016**	**2017**
Prepayments and accrued income	58	19	39	7
Allowances for impairment	*(16)*	-	*(9)*	-
Inventories	620	561	587	527
Value adjustments of inventories	*(112)*	*(97)*	*(90)*	*(75)*
Sundry assets	57	111	10	33
Other assets	**607**	**594**	**537**	**492**

The movement in the allowances for impairment of other assets is summarized as follows:

in HRK million	**GROUP**		**BANK**	
	2016	**2017**	**2016**	**2017**
Balance at as 1 January	**14**	**-**	**9**	**-**
Release of previously recognized allowances	(3)	-	(3)	-
Additional allowances	9	-	6	-
Amounts written off	(4)	-	(3)	-
Balance as at 31 December	**16**	**-**	**9**	**-**

In 2017 the Bank and the Group made reclassification of fees from Other assets to Loans and receivables.
In the line Inventories the Group holds collateral obtained in foreclosure procedures which the Group has the intention to sell in upcoming years.
In 2017 the Group and the Bank recognised write down of inventories in amount of HRK 9 million (2016: HRK 88 million) and HRK 4 million (2016: HRK 82 million), respectively.

24. Financial liabilities measured at amortised costs

Deposits from banks

	GROUP		BANK	
in HRK million	**2016**	**2017**	**2016**	**2017**
Overnight deposits	192	624	235	732
Term deposits	10,362	9,086	5,044	4,381
Subordinated loan	1,062	1,281	1,062	1,281
Repurchase agreements	36	34	-	-
Deposits from banks	**11,652**	**11,025**	**6,341**	**6,394**

24. Financial liabilities measured at amortised costs (continued)

Deposits from customers

	GROUP		BANK	
in HRK million	**2016**	**2017**	**2016**	**2017**
Overnight deposits	**15,876**	**19,599**	**15,005**	**18,393**
Savings deposits	2,521	1,554	2,521	1,554
Other financial corporations	467	4	467	4
Non-financial corporations	678	431	678	431
Households	1,376	1,119	1,376	1,119
Non-savings deposits	13,355	18,045	12,484	16,839
General governments	649	604	635	596
Other financial corporations	231	1,003	509	1,259
Non-financial corporations	5,322	6,670	4,898	6,210
Households	7,153	9,768	6,442	8,774
Term deposits	**26,663**	**24,618**	**25,509**	**23,757**
Deposits with agreed maturity	26,490	24,460	25,335	23,599
Savings deposits	23,400	21,520	23,054	21,348
Other financial corporations	1,090	1,032	1,431	1,494
Non-financial corporations	1,779	1,929	1,782	1,933
Households	20,531	18,559	19,841	17,921
Non-savings deposits	3,090	2,940	2,281	2,251
General governments	2,457	2,409	2,281	2,251
Other financial corporations	48	62	-	-
Non-financial corporations	581	465	-	-
Households	4	4	-	-
Deposits redeemable at notice	173	158	174	158
General governments	4	3	4	3
Other financial corporations	2	1	2	1
Non-financial corporations	130	105	130	105
Households	37	49	38	49
Repurchase agreements	**784**	**157**	**784**	**157**
General governments	-	-	-	-
Non-financial corporations	784	157	784	157
Deposits from customers	**43,323**	**44,374**	**41,298**	**42,307**
General governments	**3,110**	**3,016**	**2,920**	**2,850**
Other financial corporations	**1,838**	**2,102**	**2,409**	**2,758**
Non-financial corporations	**9,274**	**9,757**	**8,272**	**8,836**
Households	**29,101**	**29,499**	**27,697**	**27,863**
Other financial liabilities	**788**	**857**	**157**	**158**

Debt securities issued

	GROUP		BANK	
in HRK million	**2016**	**2017**	**2016**	**2017**
Subordinated liabilities	622	-	622	-
Subordinated issues	622	-	622	-
Other debt securities issued	302	376	302	376
Bonds	302	376	302	376
Debt securities issued	**924**	**376**	**924**	**376**

24. Financial liabilities measured at amortised costs (continued)

On 31 December 2017 long-term funding amounted EUR 1,025 million which is for EUR 166 million lower compared to 31 December 2016. Domestic funding amounted EUR 335 million out of which EUR 285 million relates to funding from Croatian Bank for Reconstruction and Development (CBRD) and EUR 50 million relates to issued senior bond. Funding from the foreign banks amounted EUR 690 million out of which EUR 387 million relates to intra-group funding, EUR 170 million relates to subordinated loans and EUR 133 million relates to supranational funding.

Subordinated debt cannot be repaid in the case of bankruptcy or liquidation of the borrower until all obligations of the Group towards other depositors and creditors have been met. Subordinated debt is included into the Tier 2 of the Group. Amount used for Tier 2 capital does not have significant influence on capital adequacy of the Bank.

The purpose of the subordinated debt received and subordinated bonds issued is the creation of the subordinated instruments, as regulated by the respective Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013.

The Bank and the Group have not had any defaults of principal or interest or other breaches with respect to their subordinated liabilities during the year 2017 and 2016.

25. Provisions

	GROUP		BANK	
in HRK million	2016	2017	2016	2017
Long-term employee provisions	14	15	9	9
Pending legal issues	69	89	62	68
Provision for commitments and guarantees given	161	150	129	122
Other provision	16	13	16	13
Provisions	**260**	**267**	**216**	**212**

In the ordinary course of business, the Group and the Bank are subject to legal actions and complaints. The Management believes that the ultimate liability will not exceed the amount of provisions recognised at reporting date.

a) Long-term employee provisions

			GROUP
in HRK million	Pensions	Jubilee payments	Total
Present value of long-term employee benefit obligations, 31 December 2015	**6**	**8**	**14**
Service cost	-	1	1
Interest cost	-	-	-
Payments	-	(1)	(1)
Exchange rate difference	-	-	-
Components recognised in other comprehensive income (Remeasurements)	-	-	-
Actuarial gains/(losses) arising from changes in demographic assumptions	-	-	-
Actuarial gains/(losses) arising from changes in financial assumptions	-	-	-
Actuarial gains/(losses) arising from changes from experience assumptions	-	-	-
Actuarial gains/losses recognised in income	-	-	-
Present value of long-term employee benefit obligations, 31 December 2016	**6**	**8**	**14**
Service cost	-	1	1
Interest cost	-	-	-
Payments	-	(1)	(1)
Exchange rate difference	-	-	-
Components recognised in other comprehensive income (Remeasurements)	-	-	-
Actuarial gains/(losses) arising from changes in demographic assumptions	-	-	-
Actuarial gains/(losses) arising from changes in financial assumptions	-	-	-
Actuarial gains/(losses) arising from changes from experience assumptions	-	-	-
Actuarial gains/(losses) recognised in income	-	1	1
Present value of long-term employee benefit obligations, 31 December 2017	**6**	**9**	**15**

25. Provisions (continued)

			BANK
in HRK million	**Pensions**	**Jubilee payments**	**Total**
Present value of long-term employee benefit obligations, 31 December 2015	**3**	**6**	**9**
Service cost	-	1	1
Interest cost	-	-	-
Payments	-	(1)	(1)
Exchange rate difference	-	-	-
Components recognised in other comprehensive income (remeasurements)	-	-	-
Actuarial gains/(losses) arising from changes in demographic assumptions	-	-	-
Actuarial gains/(losses) arising from changes in financial assumptions	-	-	-
Actuarial gains/(losses) arising from changes from experience assumptions	-	-	-
Actuarial gains/(losses) recognised in income	-	-	-
Present value of long-term employee benefit obligations, 31 December 2016	**3**	**6**	**9**
Service cost	-	1	1
Interest cost	-	-	-
Payments	-	(1)	(1)
Exchange rate difference	-	-	-
Components recognised in other comprehensive income (remeasurements)	-	-	-
Actuarial gains/(losses) arising from changes in demographic assumptions	-	-	-
Actuarial gains/(losses) arising from changes in financial assumptions	-	-	-
Actuarial gains/(losses) arising from changes from experience assumptions	-	-	-
Actuarial gains/(losses) recognised in income	-	-	-
Present value of long-term employee benefit obligations, 31 December 2017	**3**	**6**	**9**

Actuarial assumptions

The actuarial calculation of pension obligations and jubilee provisions is based on the following assumptions:

in %	2016	2017
Interest rate	3.54	3.15
Expected increase in retirement benefits	6.02	6.02

The expected retirement age for each employee was individually calculated on the basis of their current age and average of retirement age, which is for men 61 and for women 60.

Obligations were calculated in accordance with the mortality tables entitled Life tables for the Republic of Croatia 2010-2012 Issued by Croatian Bureau of Statistics.

Sensitivity to Key Assumption

The following table presents how the reasonably possible changes of individual parameters effect post-employment benefit obligations as of year-end 2017

in HRK million	Pensions	Jubilee payments	Total
Change in discount rate + 1.0 %	3	6	9
Change in discount rate - 1.0 %	3	7	10

25. Provisions (continued)

Impact on Cash Flows

The following table reflects the benefits expected to be paid by the defined benefit plans in each of the respective periods:

in HRK million	Pensions	Jubilee payments	Total
2018	-	1	1
2019	-	-	-
2020	-	1	1
2021	-	-	-
2022	-	-	-
2023 - 2027	-	2	2

Duration

The following table presents the weighted average duration of the defined-benefit obligations as of year-end 2017

in years	Pensions	Jubilee payments	Total
Duration	19.70	12.60	15.83

b) Sundry provisions (other than long term employee provisions)

Sundry provisions 2017

						GROUP
in HRK million	2016	Allocations	Use	Releases	Exchange-rate	2017
Provision for commitments and guarantees given	161	261	-	(272)	-	150
Pending legal issues	69	26	(1)	(5)	-	89
Other provision	16	-	(3)	-	-	13
Total	**246**	**287**	**(4)**	**(277)**	**-**	**252**

						BANK
in HRK million	2016	Allocations	Use	Releases	Exchange-rate	2017
Provision for commitments and guarantees given	129	247	-	(255)	1	122
Pending legal issues	62	11	(1)	(3)	(1)	68
Other provision	16	-	(3)	-	-	13
Total	**207**	**258**	**(4)**	**(258)**	**-**	**203**

25. Provisions (continued)

Sundry provisions 2016

						GROUP
in HRK million	**2015**	**Allocations**	**Use**	**Releases**	**Exchange-rate**	**2016**
Provision for commitments and guarantees given	116	297	-	(252)	-	161
Pending legal issues	122	13	(10)	(56)	-	69
Other provision	917	39	(924)	(16)	-	16
Provision for loan conversion	906	-	(874)	(16)	-	16
Other other provision	11	39	(50)	-	-	-
Total	**1,155**	**349**	**(934)**	**(324)**	**-**	**246**

						BANK
in HRK million	**2015**	**Allocations**	**Use**	**Releases**	**Exchange-rate**	**2016**
Provision for commitments and guarantees given	90	282	-	(243)	-	129
Pending legal issues	95	13	(7)	(39)	-	62
Other provision	917	39	(924)	(16)	-	16
Provision for loan conversion	906	-	(874)	(16)	-	16
Other other provision	11	39	(50)	-	-	-
Total	**1,102**	**334**	**(931)**	**(298)**	**-**	**207**

26. Other liabilities

	GROUP		BANK	
in HRK million	**2016**	**2017**	**2016**	**2017**
Prepayments received from borrowers	155	163	148	156
Salaries and bonuses payable	173	167	130	135
Deferred income and accrued fee expenses	100	95	7	5
Payables to State Agency for deposit	21	21	17	18
Sundry liabilities	129	181	76	119
Other liabilities	**578**	**627**	**378**	**433**

27. Total equity

Share capital

As at 31 December 2017 and 2016 the share capital of the Bank comprises of 16,984,175 ordinary shares with a par value of HRK 100 each. All the ordinary shares are ranked equally and bear one vote.

Capital reserves and share premium

The Bank's distributable and non-distributable reserves are determined by regulations of the CNB. As at 31 December 2017 the legal reserves of the Bank disclose non-distributable reserves of HRK 85 million, as at 31 December 2016 legal reserves amounted to HRK 85 million.
Share premium as at 31 December 2017 and 2016 amounted to HRK 1,802 million.

Dividends

The dividends for 2017 are subject to approval by shareholders at Annual General Assembly which has not been held as of the date when these consolidated financial statements were authorized for issue. The dividend declared by the Bank for the year 2016 was HRK 12.87 per share (total amount HRK 219 million).

28. Segment reporting

Business segmentation

The EBC segment reporting comprises four operating segments reflecting EBC management structure.

Erste Group- Business segments and Business lines										
EBC operating segments	Retail	Corporates					ALM/LCC		Group Markets	
EBC business lines	Retail	Small and medium- sized enterprises	Public Sector	Local Large Corporates	Commercial Real Estate	Group Large Corporates	ALM/LCC	FREE CAPITAL	Trading and Market services	Financial institutions

Retail
Retail segment comprises the business activities which are in the responsibility of account managers in the Retail network. Targeted customers are mainly privates, micros and free professionals. This business is mainly operated by the Bank in cooperation with Erste Group subsidiaries such as leasing and asset management companies with the focus on simple products ranged from loans, investment products, current accounts, savings products, to credit cards and cross selling products such as leasing, insurance, building society products.

Corporates
Corporates segment comprises business done with corporate customers of different turnover size and public sector.

Small and Medium Enterprises
Small and medium-sized enterprises (SME) are clients which are under the responsibility of the local corporate commercial center network, mainly consisting of companies with an annual turnover 7.5 million HRK to 375 million HRK.

Public Sector
Public Sector consists of the following three sets of customers: public sector, public corporations and non-profit sector.
Public sector includes such customers as central ministries and state funded funds and agencies, non-profit entities established by or under control of central government entities, regional governments and organizations funded by them, state capitals, public health and social insurance companies. In general Public sector excludes banks and non-bank financial institutions (FI), pension funds, bond issuing agencies (incl. government debt agencies), asset management based organizations which are part of the Group Markets segment.
Public corporations includes all non-financial state companies and corporations with more than 50% share of state or regional governments or municipals excluding stock exchange listed companies.
Non-profit sector comprises the following private non-profit companies: central authorities of churches, country-wide labor unions, political parties and nationally significant foundations, private schools and humanitarian organizations

Local Large Corporates
Local Large Corporates (LLC) are clients with a consolidated annual turnover threshold above HRK 375 million which are not defined as Group Large Corporate customers according to the Group Large Corporate client list.

Commercial Real Estate
Commercial Real Estate (Commercial RE) business covers investors in real estate for the purpose of generating income from the rental of individual properties or portfolios of properties, developers of individual properties or portfolios of properties for the purpose of generating capital gains through sale, asset management services, construction services (applicable only for EGI), own development for business purpose.

28. Segment reporting (continued)

Group Large Corporates

Group Large Corporates (GLC) are large corporate customers/client groups with substantial operations in core markets/extended core markets of Erste Group with an indicative consolidated annual turnover of at least HRK 3.7 billion. GLC clients can be found on the Group-wide GLC client list, which is maintained by the Group GLC. Group Large Corporates business covers the following customer types in principle: customers across the region with an annual turnover above HRK 3.7 billion, selected customers with an annual turnover below HRK 3.7 billion in case of multinational setup or strong capital markets service needs, listed and to be listed sovereign owned corporates, financial sponsors (e.g. Private Equity Funds), the participations (in case of majority stake) of the financial sponsors will be grouped together with the financial sponsor, therefore treated within GLC. International groups headquartered outside the extended core market and which have an annual consolidated turnover above HRK 3.7 billion are segmented as GLC client only if Erste Group has a relationship with the international groups' headquarter.

Asset Liability Management (ALM) and Local Corporate Center (LCC)

Asset Liability Management (ALM) and Local Corporate Center (LCC) segment comprises on the one side the management of Bank's assets and liabilities in the light of uncertainty of cash flows, cost of funds and return on investments in order to determine the optimal trade-off between risk, return and liquidity. Furthermore it comprises funding transactions, hedging activities, investments into securities other than held for trading purpose, management of own issues and FX positions.

On the other side it also includes the residual Local Corporate Center which comprises all non-core banking business activities such as non-profit servicing participations (e.g. IT, Procurement, Facility Management), intragroup eliminations within the respective partial group, dividends, refinancing costs of participations, all non-banking balance sheet positions (e.g. fixed assets, intangible assets) which cannot be allocated to other business segments as well as the profit and loss positions resulting from these balance sheet items. Apart from that the Local Corporate Center includes the reconciliations to the accounting result.

Free Capital of EBC defined as a difference between the average IFRS capital and the sum of the average allocated equity to the operating segments is reported under Operating segment ALM/LCC.

Group Markets

Group Markets (GM) segment comprises trading and markets services as well as business with financial institutions.

Trading and market services comprises all activities related to active risk taking and managing in EBC regulatory trading books, additional to that the execution of trades against the market using the trading books of EBC for market making, short-term liquidity management and warehousing purposes. Specifically revenues and fair value results not directly attributable to client transactions (which can be valid also for ALM deals) and generally risk premiums and execution fees are taken into account. It also includes 20% compensation fee from Retail for the treasury sales services.

Financial Institutions (FI) are companies that provide financial services for their clients or members and act as professional and active participant on financial markets for the purpose of proprietary trading or on behalf of their clients (banks, central banks, development banks, investment banks, investment funds, brokerages, insurance companies, pension funds, credit unions, building societies, asset management companies, government debt agencies, sovereign wealth funds, exchanges).

Business connected with serving financial institutions as a client including custody, depository services, commercial business (loans, cash management, trade & export finance) and capital markets business falls under FI.

28. Segment reporting (continued)

	RETAIL		SME		Public Sector		Local Large Corporates		Commercial RE		Group Large Corporates	
in HRK million	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**
Net interest income	1,243	1,315	413	427	273	226	84	93	25	20	84	28
Net fee and commission income	417	450	198	211	10	8	19	18	2	2	10	7
Dividend income	-	-	-	-	-	-	-	-	-	-	-	-
Net trading and fair value result	73	79	39	32	2	2	3	5	2	1	3	3
Net result from equity method investments	9	10	-	-	-	-	-	-	-	-	-	-
Rental income from investment properties & other operating leases	44	36	133	109	-	-	-	-	-	-	-	-
General administrative expenses	(959)	(1,015)	(362)	(353)	(16)	(17)	(18)	(17)	(11)	(13)	(14)	(14)
Gains/losses from financial assets and liabilities not measured at fair value through profit or loss, net	-	-	(3)	-	-	-	-	-	-	-	-	-
Net impairment loss on financial assets not measured at fair value through profit or loss	-	(32)	(245)	(117)	(28)	(5)	(21)	(193)	(70)	(66)	2	(406)
Other operating result	7	(7)	(80)	(6)	(8)	6	2	7	(17)	1	-	3
Pre-tax result from continuing operations	**834**	**836**	**93**	**303**	**233**	**220**	**69**	**(87)**	**(69)**	**(55)**	**85**	**(379)**
Taxes on income	(166)	(147)	(24)	(55)	(47)	(40)	(14)	16	14	10	(17)	68
Net result for the period	**668**	**689**	**69**	**248**	**186**	**180**	**55**	**(71)**	**(55)**	**(45)**	**68**	**(311)**
Net result attributable to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-
Net result attributable to owners of the parent	**668**	**689**	**69**	**248**	**186**	**180**	**55**	**(71)**	**(55)**	**(45)**	**68**	**(311)**
Operating income	1,786	1,890	783	779	285	236	106	116	29	23	97	38
Operating expenses	(959)	(1,015)	(362)	(353)	(16)	(17)	(18)	(17)	(11)	(13)	(14)	(14)
Operating result	**827**	**875**	**421**	**426**	**269**	**219**	**88**	**99**	**18**	**10**	**83**	**24**
Risk-weighted assets (credit risk, eop)	8,901	8,466	10,017	11,072	3,379	3,429	1,938	2,246	487	641	1,895	1,183
Average allocated capital[1]	1,182	1,176	1,033	1,138	366	352	186	219	48	55	188	163
Cost/income ratio	53.7%	54%	46.2%	45%	5.6%	7%	17.0%	15%	37.9%	57%	14.4%	37%
Return on allocated capital	56.5%	59%	6.7%	22%	50.8%	51%	29.6%	(32%)	(114.6%)	(82%)	36.2%	(191%)
Total assets (eop)	19,703	20,856	11,016	12,358	9,421	7,234	2,709	2,600	658	753	1,791	1,150
Total liabilities excluding equity (eop)	30,541	31,244	7,638	8,612	1,545	1,299	636	925	150	123	317	397
Impairments and risk provisions	**(7)**	**(37)**	**(342)**	**(131)**	**(34)**	**2**	**(18)**	**(186)**	**(92)**	**(66)**	**2**	**(403)**
Net impairment loss on loans and receivables from credit institutions and customers	-	(32)	(246)	(112)	(24)	(4)	(21)	(193)	(70)	(66)	2	(406)
Net impairment loss on other financial assets not measured at fair value through profit or loss	-	-	-	(4)	(4)	(1)	-	-	-	-	-	-
Allocation/release of provisions for contingent credit risk liabilities	(3)	(4)	(35)	(9)	(6)	7	5	7	(4)	1	-	3
Impairments from Goodwill	-	-	-	-	-	-	-	-	-	-	-	-
Net impairment loss on other non-financial assets	(4)	(1)	(61)	(6)	-	-	(2)	-	(18)	(1)	-	-

28. Segment reporting (continued)

	Trading and Market services		Financial Institutions		ALM		Other		GROUP	
in HRK million	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017
Net interest income	12	6	24	4	(147)	(86)	49	38	2,060	2,071
Net fee and commission income	1	3	26	37	(4)	(5)	(16)	(16)	663	715
Dividend income	-	-	-	-	-	-	1	1	1	1
Net trading and fair value result	85	57	7	5	7	12	1	3	222	199
Net result from equity method investments	-	-	-	-	-	-	-	-	9	10
Rental income from investment properties & other operating leases	-	-	-	-	-	-	1	2	178	147
General administrative expenses	(24)	(30)	(13)	(17)	(9)	(12)	(38)	(52)	(1,464)	(1,540)
Gains/losses from financial assets and liabilities not measured at fair value through profit or loss, net	-	-	-	-	3	2	65	3	65	5
Net impairment loss on financial assets not measured at fair value through profit or loss	2	-	1	(2)	(3)	2	(2)	(47)	(364)	(866)
Other operating result	(2)	(1)	(1)	(1)	(22)	(9)	(36)	(95)	(157)	(102)
Pre-tax result from continuing operations	**74**	**35**	**44**	**26**	**(175)**	**(96)**	**25**	**(163)**	**1,213**	**640**
Taxes on income	(15)	(6)	(9)	(5)	41	21	(63)	(45)	(300)	(183)
Net result for the period	**59**	**29**	**35**	**21**	**(134)**	**(75)**	**(38)**	**(208)**	**913**	**457**
Net result attributable to non-controlling interests	-	-	-	-	-	-	38	(77)	38	(77)
Net result attributable to owners of the parent	**59**	**29**	**35**	**21**	**(134)**	**(75)**	**(76)**	**(131)**	**875**	**534**
Operating income	98	66	57	46	(144)	(79)	36	28	3,133	3,143
Operating expenses	(24)	(30)	(13)	(17)	(9)	(12)	(38)	(52)	(1,464)	(1,540)
Operating result	**74**	**36**	**44**	**29**	**(153)**	**(91)**	**(2)**	**(24)**	**1,669**	**1,603**
Risk-weighted assets (credit risk, eop)	398	523	177	138	5,861	5,909	2,529	2,429	35,582	36,036
Average allocated capital	94	55	15	21	757	845	3,784	4,049	7,653	8,073
Cost/income ratio	24.5%	45%	22.8%	37%	(6.3%)	(15%)	105.6%	186%	46.7%	49%
Return on allocated capital	62.8%	53%	233.3%	100%	(17.7%)	(9%)	(2.0%)	(3%)	11.4%	7%
Total assets (eop)	1,651	1,427	537	370	17,004	18,169	1,114	1,008	65,604	65,925
Total liabilities excluding equity (eop)	794	185	1,038	1,688	14,769	12,915	188	331	57,616	57,719
Impairments and risk provisions	**2**	**-**	**1**	**(2)**	**(7)**	**7**	**(73)**	**(122)**	**(568)**	**(938)**
Net impairment loss on loans and receivables from credit institutions and customers	2	-	1	(2)	(2)	2	1	(48)	(357)	(861)
Net impairment loss on other financial assets not measured at fair value through profit or loss	-	-	-	-	(1)	-	(2)	-	(7)	(5)
Allocation/release of provisions for contingent credit risk liabilities	-	-	-	-	(4)	5	2	1	(45)	11
Impairments from Goodwill	-	-	-	-	-	-	(53)	(4)	(53)	(4)
Net impairment loss on other non-financial assets	-	-	-	-	-	-	(21)	(71)	(106)	(79)

28. Business segments (continued)

Measurement

The Profit and Loss Statement of the segment report is based on the measures to the Management Board for the purpose of allocating resources to the segments and assessing their performance. Management reporting as well as the segment report for the Group, is based on IFRS. Accounting standards and methods as well as measurements used in segment reporting are the same as for the consolidated statement of accounting.

Capital consumption per segment is regularly reviewed by the Management of the Group to assess the performance of the segments. The average allocated equity is determined by the credit risk, market risk and operational risk. According to the regular internal reporting to the Management Board, total assets and total liabilities as well as risk weighted assets and allocated equity are disclosed per segment. For measuring and assessing the profitability of segments, the Group also uses the return on allocated equity defined as a net result for the period before minorities in relation to the average allocated equity of the respective segment. In addition the cost/income ratio is calculated for each segment as operating expenses (general administrative expenses) in relation to operating income (total of net interest income, net fee and commission income, dividend income, net trading and fair value result, net result from equity method investments, rental income from investment properties and other lease).

Return on asset ratio (ROA) in the Group was 0.8% on 31 December 2017 (2016: -1.3%) and in the Bank 1.1% (2016: -1.1%).

29. Leases

a) Finance leases

Finance leases receivables are included under the Statement of Financial Position item Loans to and receivables from customers.

The Group leases movable property to other parties under finance lease arrangements. For the finance lease receivables included in this item, the reconciliation of the gross investment in leases to the present value of the minimum lease payments are as follows:

	GROUP	
in HRK million	**2016**	**2017**
Outstanding minimum lease payments	1,713	1,916
Non-guaranteed residual values	-	-
Gross investment	**1,713**	**1,916**
Unrealised financial income	(140)	(142)
Net investment	**1,573**	**1,774**
Present value of non-guaranteed residual values	-	-
Present value of minimum lease payments	**1,573**	**1,774**

The maturity analysis of gross investment in leases and present values of minimum lease payments under non-cancellable leases is as follows (residual maturities):

	GROUP			
	Gross investment		Present value of non-guaranteed residual values	
in HRK million	**2016**	**2017**	**2016**	**2017**
< 1 year	573	693	512	628
1-5 years	1,091	1,192	1,013	1,115
> 5 years	49	31	47	31
Total	**1,713**	**1,916**	**1,572**	**1,774**

b) Operating leases

Under operating leases, the Group and the Bank has entered into commercial leases on premises, vehicles and equipment.

Operating leases from the view of the Group and the Bank as lessor:
Minimum lease payments from operating leases were as follows:

	GROUP		BANK	
in HRK million	**2016**	**2017**	**2016**	**2017**
< 1 year	145	113	12	9
1 -5 years	230	195	20	22
> 5 years	13	11	-	-
Total	**388**	**319**	**32**	**31**

Operating leases from the view of the Group and the Bank as lessee:
Minimum lease payments from operating leases were as follows:

	GROUP		BANK	
in HRK million	**2016**	**2017**	**2016**	**2017**
< 1 year	33	32	29	31
1-5 years	98	108	94	104
> 5 years	52	50	51	49
Total	**183**	**190**	**174**	**184**

Lease payments from operating leases recognised as expense in the period for the Group amounted to HRK 41 million (2016: HRK 33 million) and for the Bank HRK 35 million (2016: HRK 32 million).

30. Related-party transactions

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form. Transactions with related parties are done at arm's length. Therefore, the applicable interest rates and other terms (maturity dates and collateral) represent market conditions.

The parent company (which is also the ultimate controlling parent entity of the entire group) is Erste Group Bank AG, Vienna (EGB). Entity with significant influence on the Group is Steiermärkische Bank und Sparkassen AG.

As at 31 December 2017 and 31 December 2016, balances outstanding with related parties comprised:

ASSET						GROUP
	Loans and receivables	Derivatives	Other	Loans and receivables	Derivatives	Other
in HRK million			2016			2017
Entity with significant influence on the Group	-	-	1	-	-	1
Key management personnel	29	-	-	13	-	-
Parent company	1,964	15	442	1,413	41	330
Other EGB companies	34	-	4	5	-	15
Other	-	-	-	2	-	-
Associates	6	-	-	413	1	-
Total assets	**2,033**	**15**	**447**	**1,846**	**42**	**346**

LIABILITIES						GROUP
	Deposits	Derivatives	Other	Deposits	Derivatives	Other
in HRK million			2016			2017
Entity with significant influence on the Group	3,456	2	-	3,362	-	-
Key management personnel	33	-	3	23	-	3
Parent company	6,610	60	23	5,967	13	3
Other EGB companies	125	-	-	176	-	3
Other	2	-	-	18	-	-
Associates	20	-	-	117	2	-
Total liabilities	**10,246**	**62**	**26**	**9,663**	**15**	**9**

ASSET						BANK
	Loans and receivables	Derivatives	Other	Loans and receivables	Derivatives	Other
in HRK million			2016			2017
Entity with significant influence on the Group	-	-	-	-	-	-
Key management personnel	28	-	-	13	-	-
Parent company	1,963	15	425	1,412	41	257
Other EGB companies	33	-	1	3	-	3
Other	-	-	-	2	-	-
Subsidiaries	592	4	1	421	3	-
Associates	46	-	-	413	1	-
Total assets	**2,662**	**19**	**427**	**2,264**	**45**	**260**

LIABILITIES						BANK
	Deposits	Derivatives	Other	Deposits	Derivatives	Other
in HRK million			2016			2017
Entity with significant influence on the Group	1,763	2	-	1,509	-	-
Key management personnel	31	-	3	22	-	3
Parent company	3,106	60	23	3,236	13	3
Other EGB companies	80	-	-	116	-	3
Other	2	-	-	18	-	-
Subsidiaries	709	-	-	974	-	-
Associates	28	-	-	117	2	-
Total liabilities	**5,719**	**62**	**26**	**5,992**	**15**	**9**

30. Related-party transactions (continued)

Transactions with related parties comprised:

STATEMENT OF PROFIT OR LOSS		GROUP		BANK
in HRK million	2016	2017	2016	2017
Interest income	**45**	**34**	**54**	**42**
Entity with significant influence on the Group	23	3	23	3
Key management personnel	-	1	-	-
Parent company	22	30	22	30
Other EGB companies	-	-	-	-
Subsidiaries	-	-	7	9
Associates	-	-	2	-
Fee income	**27**	**35**	**77**	**89**
Parent company	7	8	6	7
Other EGB companies	19	25	19	25
Subsidiaries	-	-	51	55
Associates	1	2	1	2
Other operating income	**20**	**29**	**14**	**22**
Parent company	4	7	3	5
Subsidiaries	-	-	5	16
Other EGB companies	16	22	-	1
Associates	-	-	6	-
Total income	**92**	**98**	**145**	**153**

STATEMENT OF PROFIT OR LOSS		GROUP		BANK
in HRK million	2016	2017	2016	2017
Interest expense	**277**	**198**	**190**	**123**
Entity with significant influence on the Group	117	64	88	33
Key management personnel	-	1	-	1
Other EGB companies	1	2	-	-
Parent company	159	131	100	89
Subsidiaries	-	-	2	-
Fee expense	**37**	**34**	**38**	**41**
Parent company	6	7	6	7
Other EGB companies	30	26	22	20
Other	1	1	1	1
Subsidiaries	-	-	9	13
Other administrative expenses	**50**	**61**	**93**	**106**
Parent company	18	18	18	18
Other EGB companies	32	42	22	30
Key management personnel	-	1	-	1
Subsidiaries	-	-	6	57
Associates	-	-	47	-
Total expenses	**364**	**293**	**321**	**270**

30. Related-party transactions (continued)

OFF BALANCE ITEMS		GROUP		BANK
in HRK million	**2016**	**2017**	**2016**	**2017**
Guarantees issued	**151**	**116**	**38**	**34**
Parent company	112	32	36	32
Other EGB companies	39	84	-	-
Other	-	-	-	-
Subsidiaries	-	-	2	2
Undrawn credit and loan commitments	**1**	**3**	**-**	**68**
Key management personnel	-	1	-	1
Other EGB companies	1	2	-	-
Subsidiaries	-	-	-	67
Associates	-	-	-	-
Total commitments and contingent liabilities	**152**	**119**	**38**	**102**

As at 31 December 2017, the Group has had cash deposit as collateral within Amounts due to banks from the parent company in the amount of HRK 1,048 million (2016: HRK 1,157 million).

The remuneration of Management Board and key management were as follows:

		GROUP		BANK
in HRK million	**2016**	**2017**	**2016**	**2017**
Wages and salaries	32	58	9	10
Bonuses	10	14	5	6
Total remuneration	**42**	**72**	**14**	**16**
Of which pension costs	4	4	1	1

31. Asset pledged as collateral

The following assets were pledged as security for liabilities:

Pledged assets		GROUP		BANK
in HRK million	**2016**	**2017**	**2016**	**2017**
Loans to and receivables from customers	614	364	614	364
Financial assets - available for sale	1,219	763	922	514
Financial assets - held to maturity	-	457	-	457
Total	**1,833**	**1,584**	**1,536**	**1,335**

The financial assets pledged as collateral consist of bonds, shares in investment funds, equity instruments and other interest-bearing securities.
Collaterals were pledged as a result of repo transactions.

The fair value of collateral received which may be repledged or resold even without the security provider’s default was HRK 2,077 million (2016: HRK 2,699 million) for the Group and HRK 2,264 million for the Bank (2016: HRK 3,003 million).
Collateral with fair value of HRK 162 million was repledged (2016: HRK 817 million) for the Group and the Bank. The Bank is obliged to return repledged collateral.

32. Transfers of financial assets – repurchase transactions and securities lending

in HRK million	2015 Carrying amount of transferred assets	2015 Carrying amount of associated liabilities	2016 Carrying amount of transferred assets	2016 Carrying amount of associated liabilities	2017 Carrying amount of transferred assets	2017 Carrying amount of associated liabilities
						GROUP
Repurchase agreements						
Financial assets - available for sale	757	423	297	36	250	34
Financial assets - held to maturity	151	-	-	-	-	-
Total - repurchase agreements	**908**	**423**	**297**	**36**	**250**	**34**
						BANK
Repurchase agreements						
Financial assets - available for sale	409	387	-	-	-	-
Total - repurchase agreements	**409**	**387**	**-**	**-**	**-**	**-**

The transferred financial instruments consist of bonds and shares in investment funds.

The total amount of HRK 250 million (2016: HRK 297 million) for the Group and nil in 2016 and 2017 for the Bank represents the carrying amount of financial assets under the respective statement of financial position items for which the transferee has a right to sell or repledge.

Liabilities from repo transactions in the amount of HRK 34 million (2016: HRK 36 million) for the Group and nil in 2017 and 2016 for the Bank, which are measured at amortised cost.

The following table shows the fair values of the transferred assets and associated liabilities that have recourse only to the transferred assets. In the Group and the Bank, these assets and liabilities relate to repo transactions.

in HRK million	2016 Fair value of transferred assets	2016 Fair value of associated liabilities	2016 Net position	2017 Fair value of transferred assets	2017 Fair value of associated liabilities	2017 Net position
						GROUP
Financial assets - available for sale	297	36	261	250	34	216
Financial assets - held to maturity	-	-	-	-	-	-
Total	**297**	**36**	**261**	**250**	**34**	**216**
						BANK
Financial assets - available for sale	-	-	-	-	-	-
Total	**-**	**-**	**-**	**-**	**-**	**-**

33. Offsetting

Financial assets subject to offsetting and potential offsetting agreements in 2017

							GROUP
				Potential effects of netting agreements not qualifying for statement of financial position offsetting			
in HRK million	Gross amounts in statement of financial position	Amounts set off against financial liabilities	Net amounts in statement of financial position	Financial instruments	Cash collateral received	Non-cash financial collateral received	Net amount after potential offsetting
Derivatives	52	-	52	(3)	-	-	49
Reverse repurchase agreements	1,909	-	1,909	-	-	(1,909)	-
Total	**1,961**	**-**	**1,961**	**(3)**	**-**	**(1,909)**	**49**

Financial liabilities subject to offsetting and potential offsetting agreements in 2017

							GROUP
				Potential effects of netting agreements not qualifying for statement of financial position offsetting			
in HRK million	Gross amounts in statement of financial position	Amounts set off against financial assets	Net amounts in statement of financial position	Financial instruments	Cash collateral pledged	Non-cash financial collateral pledged	Net amount after potential offsetting
Derivatives	52	-	52	(3)	-	-	49
Repurchase agreements	191	-	191	-	-	(191)	-
Total	**243**	**-**	**243**	**(3)**	**-**	**(191)**	**49**

Financial assets subject to offsetting and potential offsetting agreements in 2017

							BANK
				Potential effects of netting agreements not qualifying for statement of financial position offsetting			
in HRK million	Gross amounts in statement of financial position	Amounts set off against financial liabilities	Net amounts in statement of financial position	Financial instruments	Cash collateral received	Non-cash financial collateral received	Net amount after potential offsetting
Derivatives	55	-	55	(3)	-	-	52
Reverse repurchase agreements	2,076	-	2,076	-	-	(2,076)	-
Total	**2,131**	**-**	**2,131**	**(3)**	**-**	**(2,076)**	**52**

Financial liabilities subject to offsetting and potential offsetting agreements in 2017

							BANK
				Potential effects of netting agreements not qualifying for statement of financial position offsetting			
in HRK million	Gross amounts in statement of financial position	Amounts set off against financial assets	Net amounts in statement of financial position	Financial instruments	Cash collateral pledged	Non-cash financial collateral pledged	Net amount after potential offsetting
Derivatives	52	-	52	(3)	-	-	49
Repurchase agreements	157	-	157	-	-	(157)	-
Total	**209**	**-**	**209**	**(3)**	**-**	**(157)**	**49**

33. Offsetting (continued)

Financial assets subject to offsetting and potential offsetting agreements in 2016

GROUP							
				Potential effects of netting agreements not qualifying for statement of financial position offsetting			
in HRK million	Gross amounts in statement of financial position	Amounts set off against financial liabilities	Net amounts in statement of financial position	Financial instruments	Cash collateral received	Non-cash financial collateral received	Net amount after potential offsetting
Derivatives	73	-	73	(2)	-	-	71
Reverse repurchase agreements	2,414	-	2,414	-	-	(2,414)	-
Total	**2,487**	**-**	**2,487**	**(2)**	**-**	**(2,414)**	**71**

Financial liabilities subject to offsetting and potential offsetting agreements in 2016

GROUP							
				Potential effects of netting agreements not qualifying for statement of financial position offsetting			
in HRK million	Gross amounts in statement of financial position	Amounts set off against financial assets	Net amounts in statement of financial position	Financial instruments	Cash collateral pledged	Non-cash financial collateral pledged	Net amount after potential offsetting
Derivatives	77	-	77	(2)	-	-	75
Repurchase agreements	820	-	820	-	-	(820)	-
Total	**897**	**-**	**897**	**(2)**	**-**	**(820)**	**75**

Financial assets subject to offsetting and potential offsetting agreements in 2016

BANK							
				Potential effects of netting agreements not qualifying for statement of financial position offsetting			
in HRK million	Gross amounts in statement of financial position	Amounts set off against financial liabilities	Net amounts in statement of financial position	Financial instruments	Cash collateral received	Non-cash financial collateral received	Net amount after potential offsetting
Derivatives	76	-	76	(2)	-	-	74
Reverse repurchase agreements	2,683	-	2,683	-	-	(2,683)	-
Total	**2,759**	**-**	**2,759**	**(2)**	**-**	**(2,683)**	**74**

Financial liabilities subject to offsetting and potential offsetting agreements in 2016

BANK							
				Potential effects of netting agreements not qualifying for statement of financial position offsetting			
in HRK million	Gross amounts in statement of financial position	Amounts set off against financial assets	Net amounts in statement of financial position	Financial instruments	Cash collateral pledged	Non-cash financial collateral pledged	Net amount after potential offsetting
Derivatives	76	-	76	(2)	-	-	74
Repurchase agreements	784	-	784	-	-	(784)	-
Total	**860**	**-**	**860**	**(2)**	**-**	**(784)**	**74**

33. Offsetting (continued)

The Bank uses repurchase agreements and master agreements as a means of reducing credit risk of derivative and financing transactions. They qualify as potential offsetting agreements. Master agreements are relevant for counterparties with multiple derivative contracts. They provide for the net settlement of all the contracts in the event of default of any counterparty. For derivatives transactions the amount of assets and liabilities which would be set off as a result of master agreements is presented in the column Financial instruments. Repurchase agreements are primarily financing transactions. They are structured as a sale and subsequent repurchase of securities at a pre-agreed price and time. This ensures that the securities stay in hands of lender as collateral in case that borrower defaults in fulfilling any of its obligations. Offsetting effects from repurchase agreements are disclosed in the column Non-cash financial collateral received / pledged. Collateral is presented at fair value of the transferred securities. However, if fair value of collateral exceeds the carrying amount of the receivable/liability from the repo transaction the value is capped at the level of the carrying amount. Remaining position may be secured by cash collateral. Cash and non-cash financial collateral involved in these transactions is restricted from using it by the transferor during the time of the pledge.

34. Risk management

34.1) Risk policy and strategy

It is a core function of every bank to take risks in a conscious and selective manner and to manage such risks professionally. The Group's proactive risk policy and strategy aims at achieving balanced risk and return in order to generate a sustainable and adequate return on equity.

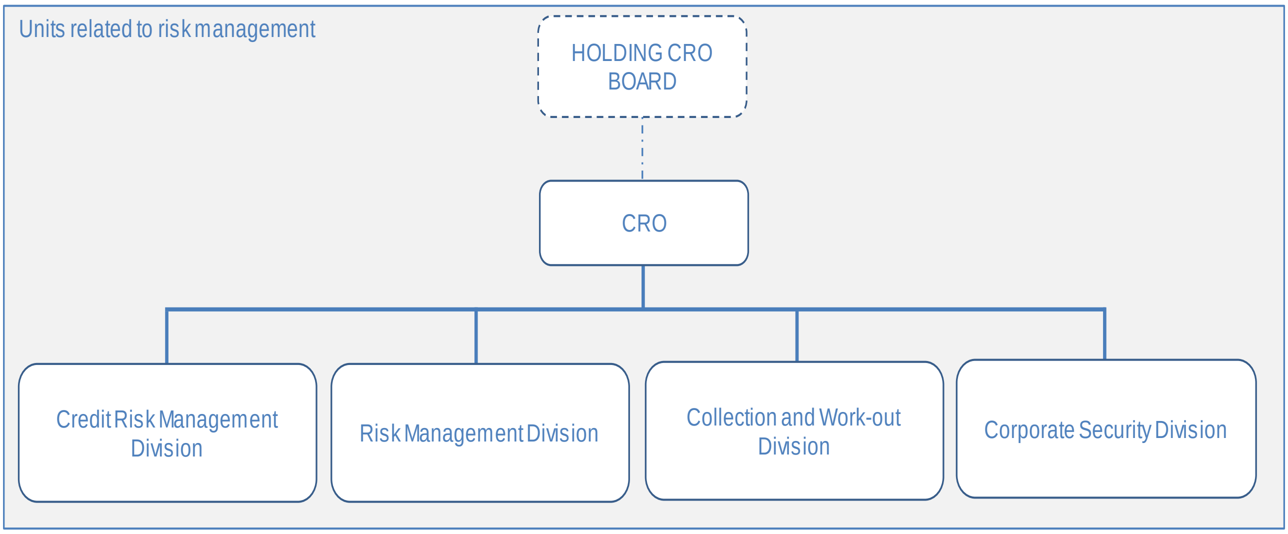
The Group uses a risk management and control system that is proactive and tailored to its business and risk profile. It is based on a clear risk strategy that is consistent with the Group's business strategy and focused on early identification and management of risks and trends. In addition to meeting the internal goal of effective and efficient risk management, the Bank's risk management and control systems have been developed to fulfil external and, in particular, regulatory requirements.

Given the Bank's business strategy, the key risks for the Bank are credit risk, market risk, liquidity risk, and operational risk. The Bank also focuses on managing macroeconomic risks as well as concentrations within and across risk types. In addition, the Bank's control and risk management framework takes into account a range of other significant risks faced by the banking Group. The bank always seeks to enhance and complement existing methods and processes, in all areas of risk management.

34.2) Risk management organisation

Risk monitoring and control is achieved through a clear organisational structure with defined roles and responsibilities, delegated authorities and risk limits.

The following chart presents an overview of the Bank's risk management, risk governance and responsibilities.



34.2) Risk management organisation (continued)

Overview of risk management structure

The Management Board, and in particular the Bank's chief risk officer (CRO), must perform its oversight function within the Bank's risk management structure. Risk control and management functions within the Bank are performed based on the business and risk appetite approved by the Management Board. The CRO is responsible for the implementation of and adherence to the risk control and risk management strategies across all risk types and business lines.

The Management Board and in particular, the CRO ensure the availability of appropriate infrastructure and staff as well as methods, standards and processes to that effect. The actual identification, measurement, assessment, approval, monitoring, steering and limit setting for the relevant risks are performed at the operating entity level within the Bank.

The Management Board is supported by several divisions established to perform operating risk control functions and exercise strategic risk management responsibilities.

The following risk management functions report directly to the CRO:
- Credit Risk Management Division
- Risk Management Division
- Collection and Work-out Division
- Corporate Security Division

Further breakdown to departments/units is set within mentioned organizational units with clearly defined responsibilities:

Corporate Risk Management Department

The Corporate Risk Management Department manages credit risk and monitors the balance of credit portfolios of clients that are belonging to the Corporate Division and the Financial Markets Division, and according to the responsibilities set out in the relevant acts.
The department analyses credit applications, and based on them, issues opinion on the credit risk from the risk perspective. It analyses the projects and evaluates its eligibility for financing from the risk perspective. It also performs an analysis of the Bank's/Group's overall exposure to the client/group of connected customers, portfolio analysis, monitors early warning signals and controls early collection.
The Department follows group standards within its scope, initiates, coordinates and creates local policies and procedures and monitors their fulfilment.

Retail Risk Management Department

Retail Risk Management Department manages credit risk and monitors the credit portfolio of clients from the Retail Sector. The Department analyses requests for loans, and issues an opinion on them from the risk perspective. It performs an analysis of the projects and evaluates its eligibility for financing from the risk perspective. It also performs an analysis of the Bank's overall exposure to the client.
The Department follows group standards within its scope, coordinates and creates local policies and procedures and monitors their fulfilment. The Department is responsible, through Credit Risk Monitoring and Collection Group, for carrying out the activities of early collection of clients in its jurisdiction, and in accordance with relevant acts.

Risk Strategy and Reporting Department

The Risk Strategy and Reporting Department takes part in the process of planning the activities of the Bank and the Group from the risk management point of view. It monitors the execution of risk management-related planned and strategically determined goals and plans, both of the Bank and the Group.

34.2) Risk management organisation (continued)

The Department monitors risk-related regulatory changes and group standards, initiates, coordinates and creates policies and other procedure, and monitors their fulfilment, all within its scope of activities prescribed by other acts. The Department performs the analysis of the structure and quality of portfolios and prepares reports on the structure and quality of portfolios. It proposes guidelines for the optimization of accepted risks in order to improve certain asset classes, rating groups but is also involved in collateral management.
The Department also executes and drafts reports related to credit risk with the prescribed dynamics in compliance with the legal regulations and the standards of the Bank and the Group.
The Risk Strategy and Reporting Department, together with other departments and Bank organizational units, actively participates in the process of managing data quality and evaluating the adequacy of internal control systems.

Quantitative Research Department

Quantitative Research Department (QRD) is responsible for implementation of Basel standards, regulatory requirements and guidelines, as well as Erste Group standards with respect to internal rating based approach for calculation of capital requirements for credit risk and enterprise-wide risk management.
QRD introduces, coordinates the development and participates in development, implementation and monitoring of different types of quantitative models as well as calculation of credit risk parameters which are used for measurement, segmentation and management of credit risks in line with best practice and group standards as well as implementation in the Bank's processes (including constant enhancement of business processes connected with above mentioned calculations). QRD is responsible for efficiency of implemented models and performs calibration and participates in calibration of models in line with Erste Group principles and participates in validation of the same in collaboration with Erste Group. QRD also reports about the parameters and models and performs modelling of macroeconomic impact on risk models and bank business as a whole.
QRD strives to achieve holistic approach in managing risks through enterprise-wide risk management. By defining risk strategy and Risk Appetite Statement which includes all risk departments, a framework for responsible and prudent risk taking is ensured. Enterprise-wide risk management encompasses Internal Capital Adequacy Assessment Process (ICAAP) which includes the identification of risks to which the Bank and the Group is exposed or might be exposed in the future and the assessment of economic capital adequacy. Identification of risks is performed through risk materiality assessment, concentration risk analysis and stress testing. Material risks are managed through calculation of regulatory and internal capital requirements and through the limit and control systems. Quantitative Research Department calculates the economic capital adequacy on a quarterly basis, i.e. coverage of internal capital requirements, for relevant risks, with internal capital. In addition, through enterprise-wide risk management QRD plans and manages the risk weighted assets, performs back-testing of provisions and participates in determination of price for different products using Expected Risk Margin (ERM), Standard Risk Cost (SRC) and cost of capital, participates in the process of profitability modelling, collection improvement and development of early warning signal systems, customer relationship management and risk cost planning.
Enterprise-wide risk management is also responsible for the creation of the Recovery Plan of the Group and participates in capital management within its field of responsibility.

Operational, Market and Liquidity Risk Management Department

Operational, Market and Liquidity Risk Management Department, within the scope of its authority, performs all tasks necessary for operational, market and liquidity risk management in compliance with the Rulebooks and procedures related to its scope of authority.
It performs the analysis of the complex market situation, identifies and measures both market and liquidity risks and their parameters. Apart from the above-mentioned activities, the Department is also in charge of the implementation of the Basel II guidelines; it establishes measures for the reduction of risks within the scope of its authority and participates in the process of approving new products of the Financial Markets and Investment Banking Division. It also collaborates with other organizational units with the purpose of improving the quality of operational, market and liquidity risk management.

34.2) Risk management organisation (continued)

In scope of operational risk management, department has a goal to control all organizational units and business processes within the Bank, having in mind that operational risk is characteristic to all activities, processes, products and Bank's systems based on defined Bank's risk profile, particularities of business environment and regulatory requests. It collaborates with other organizational units with the purpose of improvement the quality of managing operational, market and liquidity risk.

Collection and Work-out Division

The Collection and Work-out Division is in charge of managing collection and bad placements by means of a continuous and systematic development of solutions to eliminate and reduce risks in dealing with work-out clients. It uses all the necessary measures to ensure voluntary payment of outstanding debts. However, should there be a lack of voluntary settlement of debts, the Division proposes the most adequate means alternative payment of outstanding debts. Besides that, Division conducts collection of payments through restructuring of the client's liabilities (early collection) and proposes operative restructuring, with the purpose of decrease of taken risks.
Division is in charge for control, update and maintaining collaterals and makes policies and standards of assessing and types of accepted collaterals. In that way, it contributes to RWA optimization and keeps adequate credit protection. Division is also in charge of the assets taken over by the Bank.

Corporate Security Division

Corporate Security Division is in charge for conducting of tasks related to the security, adequate managing informational system and risk of informational system, managing of continuity of operations and crisis management according to Group standards and local policies and standards.
Main objectives of the Division are development and application of safety strategies and safety architecture of informational system, determination of safety objectives in line with Bank's informational system strategy, management of policy for safety of informational system, standards, guidelines and other internal acts with goal of accomplishing and maintaining satisfactorily level of safety. Further, the objectives are management of informational safety in line with related documents, acts and regulatory rules, management with continuity of operations and situations of crisis in line with related documents, acts and regulatory rules as well as reporting to Board and Supervisory Board about safety level in the Bank.

34.3) Group-wide risk and capital management

Overview

As in prior years, Enterprise-wide Risk Management (ERM) has continued to strengthen its comprehensive framework which includes improvements in Internal Capital Adequacy Process (ICAAP).

The ERM framework is designed to support the bank's management in managing the risk portfolios as well as coverage potential (internal capital) to assure adequate capital reflecting the nature and magnitude of the Bank's and the Group's risk profile. ERM is tailored to the business and risk profile of the Bank and reflects the strategic goal of protecting shareholders and senior debt holders while ensuring sustainability of the Bank and the Group. Prudential risk management is ensured by identification, quantification, aggregation and successful management of all material risk types.

34.3) Group-wide risk and capital management (continued)

ERM is a modular and comprehensive management and steering system and is integral to the Bank's and the Group's overall steering and management system. The components necessary to ensure all aspects of ERM, regulatory requirements, but particularly internal value adding needs, can be clustered as follows:

- Risk appetite statement
- Portfolio and risk analysis through Risk materiality assessment, Concentration risk management and Stress testing,
- Risk-bearing capacity calculation,
- Risk planning and management through Risk-weighted assets management and capital allocation and
- Recovery plan.

In addition, ERM department participates in the Capital Management Team with a purpose to maintain the appropriate quantity and quality of capital to support planned operations, while at the same time ensuring that regulatory requirements as well as investors' and stakeholders' expectations are fully met. Capital is managed to maintain financial strength, absorb losses so as to withstand adverse economic conditions, allow for growth opportunities and meet risk management and business objectives.

In addition to the ICAAP's ultimate goal of assuring capital adequacy and sustainability at all times, the ERM components serve to support the Bank's and the Group's management in pursuing its strategy.

Risk Appetite Statement (RAS)

Risk strategy and Risk Appetite Statement are defined through the annual strategic planning process to ensure appropriate alignment of risk, capital and performance targets of the Bank and the Group. The RAS represents a strategic statement expressing the maximum level of risk that the Bank and the Group is prepared to accept in order to deliver its business objectives. It consists of a set of key risk appetite indicators that provide quantitative direction for risk steering, creating a holistic perspective on optimising capital, funding and risk-return trade-offs and qualitative statements in the form of key risk principles that form part of the strategic guidelines for risk management.

The key objectives of RAS is to ensure sufficient resources to support business and absorb stress events, set boundaries for the risk-return target setting and ensure financial strength and quality of system and controls. In order to ensure that the RAS is operationally efficient, the traffic light system has been established (Red, Amber, Green) for key indicators to achieve timely escalation to the respective governance levels and implementation of effective remediation measures.

Portfolio and risk analytics

The Bank and the Group actively identifies, quantifies, monitors and manages risks within its portfolio.

The **risk materiality assessment** is an annual process with the purpose to systematically identify new and assess existing material risks for the Bank. The process uses a combination of quantitative and qualitative factors in the assessment of each risk type. This process represents the starting point in the ICAAP process, as identified material risk types need to be considered directly in the risk-bearing-capacity calculation or indirectly through other elements of ICAAP. In addition, insights generated by the assessment are used to improve risk management practices also serves as an input for the definition of Risk strategy and RAS of the Bank and the Group and stress testing.

34.3) Group-wide risk and capital management (continued)

The Bank has also implemented a process to identify, measure, control and to manage **risk concentrations**. This process is essential to ensure the long-term viability of the Bank, especially in times of adverse business environment and stressed economic conditions. The risk concentration analysis covers credit risk, market risk, operational risk and liquidity risk.

Stress testing and modelling risks represent key, forward-looking elements of ICAAP. Modelling sensitivity of the assets, liabilities and profit or loss and helps in optimising the risk-return profile. Stress testing takes into account severe but plausible scenarios that enrich measuring and risk management system. Comprehensive stress test results are considered in the risk-bearing capacity calculation and the levels of core indicators under stressed conditions are compared to the limits and targets set in the Risk Appetite Statement.

In order to calculate the effect of a given stress scenario on P&L and capital adequacy, internally developed model is used to translate macroeconomic variables into risk parameters. The results for the Comprehensive Stress Test performed during 2017 demonstrated that the level of regulatory capital of the Bank and the Group is adequate.

Risk-bearing Capacity Calculation

The Risk-bearing Capacity Calculation (RCC) is used to define the internal capital adequacy required by the ICAAP. The quantified material risks are compared to the coverage potential (internal capital), planning process, risk appetite limit as well as a traffic light system support management in its discussions and decision processes.

In addition to Pillar 1 risk types (credit, market and operational risks), in the context of Pillar II, other risk types are also considered within the required economic capital through internal models (e.g. interest rate risk in the banking book, FX induced credit risk for retail, business risk) or via stress test (e.g. residual risk, macroeconomic risk etc.).

Management Board and Supervisory Board are reported on capital adequacy on a quarterly basis. The traffic light system embedded in the RCC helps to alert the management in case there is a need to plan and execute actions to either replenish the capital base or to take measures for reducing the risk.

Risk planning and forecasting

The responsibility for risk management within the Bank includes ensuring sound risk planning and forecasting processes. The forecasts determined by risk management are the result of close cooperation with all stakeholders in the Bank's and Group's overall planning process, and in particular with Controlling, Asset Liability Management and the business lines. The risk planning and forecasting process includes both a forward and backward-looking component, focusing on both portfolio and economic environment changes.

Risk-weighted asset management

As risk weighted assets determine the actual regulatory capital requirement of the Bank and the Group and influence the capital ratio as a key performance indicator, particular emphasis is devoted to meeting targeted levels of RWA. Insights from monthly RWA analyses are used to improve the calculation infrastructure, the quality of input parameters and data, as well as the most efficient application of the Basel framework. The Bank has established a process of tracking, planning and defining target levels of RWA. The Bank's Management Board is regularly informed on the levels of RWA and adherence to the limits set within the Risk Appetite Statement.

34.3) Group-wide risk and capital management (continued)

Capital allocation

An important task integral to the risk planning process is the allocation of capital to EBC entities, business lines and segments. This is done via close cooperation between local Enterprise-wide Risk Management, Group Risk Management and Controlling. All insight from the ICAAP and controlling processes is used to allocate capital with a view to risk-return considerations.

Leverage ratio

The leverage ratio represents the relationship between core capital (tier 1) and leverage exposure according to Article 429 CRR. Essentially, the leverage exposure represents the sum of unweighted on and off-balance-sheet positions considering valuation and risk adjustments as defined within the CRR. Management Board is informed on the level of leverage ratio for the Bank and the Group and on the adherence to defined limits and targets within the Risk Appetite Statement on a quarterly basis.

Recovery plan

In compliance with the regulations issued by the Croatian National Bank (Decision on Recovery Plans of Credit Institutions), the Bank was required to draw up the Recovery Plan of the Group. The Recovery plan tests the resilience of the Group under severe, stressed idiosyncratic and macroeconomic scenarios and defines options for the recovery of the Group under such conditions. In 2017, the Croatian National Bank was provided with an updated version of the Recovery plan.

34.4) Credit risk

Definition and overview

Credit risk arises in the Bank's traditional lending and investment businesses. It involves losses incurred as a result of default by borrowers and the need to set aside allowances as a result of the deteriorating credit quality of certain borrowers, as well as due to counterparty risk from trading in instruments and derivatives bearing market risk. Operative credit decisions are made by the responsible credit risk management units.
With goal of good risk management, all data relevant to credit risk management, performance management and determination of risk-weighted assets and the regulatory capital requirement are regularly input into central database used for credit risk management, while quality of data is regularly controlled. Therefore, departments within Risk Management regularly use this database for credit risk reporting thereby providing centralised analysis and application of ratios according to unified methods and segmentation across the Bank and the Group as a whole. The credit risk reporting comprises regular reports on credit portfolio for external and internal recipients and permits continuous monitoring of credit risk developments, thus enabling management to take control measures. In-house recipients of these reports include, above all, the Supervisory and Management Board as well as risk managers, business unit directors and internal audit staff.

34.4) Credit risk (continued)

Internal rating system

Overview
The Bank has in place business and risk strategies, as well as policies for lending and credit approval processes that are reviewed and adjusted regularly, at minimum on a yearly basis. They cover the entire lending business, taking into account the nature, scope and risk level of the transactions and the counterparties involved. Credit approval is also based on the creditworthiness of the customer, the type of credit, collateral, covenant package and other risk mitigation factors involved.
The assessment of counterparty default risk within the Bank is based on the customer's Probability of Default (PD). For each credit exposure and lending decision, the Bank assigns an internal rating, which is a unique measure of the counterparty default risk. The internal rating of each customer is updated at least on an annual basis (annual rating review). Ratings of customers in weaker rating classes are reviewed with higher frequency.

Besides setting of the capital requirements the main purpose of the internal ratings is to support the decision-making for lending and for the terms of credit facilities to be extended. However, internal ratings also determine the level of decision-making authority within the Bank and the monitoring procedures for existing exposures. At a quantitative level, internal ratings drive the level of required risk pricing and risk allowances.
As mentioned above, internal ratings are the key element of the RWA calculation which is also used in the assessment of economic capital requirement according to Pillar 2 (ICAAP). PD values reflect the 12-month probability of default based on long-term average default rates. The Bank assigns margins of conservatism to the calculated PD depending on the granularity of portfolios and relevant data history. Calibration of PD values is validated annually in line with all the rating methods validations.

Internal ratings take into account all available essential information for the assessment of counterparty default risk. For non-retail borrowers, internal ratings take into account the financial strength of the counterparty, the possibility of external support and other company information. For retail clients, internal ratings are based mainly on behavioural and application scoring, but they also utilise demographic and financial information. Rating ceiling rules on credit quality are applied based on membership in a Group of economically related entities and country of main economic activity

All scorecards, both retail and non-retail, are regularly validated by the central validation unit based on Group-wide standard methodology. Validations are conducted using statistical techniques and the results of this validation process are reported to the management and regulatory bodies.
The Bank complies with all Erste Group AG standards with respect to model development and maintenance process. All new models and modifications of existing models in the Group (rating models and risk parameters), as well as methodology standards, are reviewed by the Group committee (Holding Model Committee) which ensures Group-wide integrity and consistency of models and methodologies. Models are also approved by local Management Board.

Risk grades and categories
The classification of credit assets into risk grades is based on the Bank's internal ratings. The Bank uses two internal risk scales for risk classification: for customers that have not defaulted, a risk scale of 8-10 risk grades (for private individuals and companies within retail) and 13 risk grades (for all other segments) is used. Defaulted customers are classified into a separate risk grade.
For the purpose of external reporting, internal rating grades of the Bank are grouped into the following four risk categories:

Low risk: customers with well-established and rather long-standing relationships with the Bank and the Group or large internationally recognised customers. Clients with strong and good financial position and no foreseeable financial difficulties. Retail clients having long relationships with the Bank, or clients with a wide product pool use. No late payments currently or in the most recent 12 months. New business is generally done with clients in this risk category.

34.4) Credit risk (continued)

Management attention: clients that may have overdue payments or defaults in their credit history or may encounter debt repayment difficulties in the medium-term. Retail clients with limited savings or probable payment problems in the past triggering early collection reminders.

Substandard: The borrower is vulnerable to negative financial and economic developments.

Non-performing: clients who meet one or more of the default criteria according to Article 178 of Regulation (EU) No 575/2013 and Croatian National Bank bylaws, which are precisely defined by the Group's and the Bank's internal documentation: full repayment unlikely, more than 90 days past due on a material exposure, restructuring resulting in a loss to the lender, realisation of a loan loss or initiation of bankruptcy proceedings. For purposes of analysing non-performing positions, the Bank applies the customer view including Retail clients; if a customer default on one product then the entire customer's performing products are classified as non-performing. Definition of non-performing exposure included non-performing forbearance into non-performing exposure even when a client does not meet criteria for default.

Erste Bank rating category	Agencies
Low Risk	Aaa/AAA … Ba3/BB-
Management Attention	B1/B+ … B3/B-
Substandard	Caa1 … CC
Non-Performing	C, D

Credit risk review and monitoring

Credit monitoring
In order to manage credit risk timely, regular analysis of client's risks which includes current rating status, repayment ability, revision of collaterals and compliance with the contracted terms, repayment and other clauses through re-approvals is performed.
The Bank's goal is to timely recognize any decrease in the quality of credit portfolio which may have material losses for the Bank. The Bank through a re-approval process analyses a complete status of the debtor. The meaning of regular re-approval of credit exposures is an active follow-up on client and portfolio quality and it represents an additional measure of optimisation of credit risk exposure of the Bank.
The Bank performs evaluation of creditworthiness based on all information on client, also taking into consideration prior credit relationships between the Bank and the client.

Early detection of increased risk level
The Bank applies methods of early detection of increased credit risk level in order to make collection more successful even in the case of decrease in creditworthiness and decrease in the quality of credit portfolio. An increased level of credit risk on the level of respective client and portfolio is detected by following all relevant information and foreseen change of variables in the future period which primarily includes client's prior behaviour in obligations repayment and following market information. Therefore, increased level of credit risk is on the level of the Bank timely detected by following:

- Market conditions
- Rating changes
- Delays

Following market conditions imply following of all macroeconomic variables, as well as their evaluation for future period.

34.4) Credit risk (continued)

Credit risk exposure

Credit risk exposure relates to the following statement of financial position items:
- Other demand deposits,
- Financial assets - held for trading (without equity instruments),
- Financial assets - at fair value through profit or loss (without equity instruments),
- Financial assets - available for sale (without equity instruments),
- Financial assets - held to maturity,
- Loans and Receivables,
- Derivatives and
- Off balance sheet credit risks (primarily financial guarantees and undrawn irrevocable credit commitments).

The credit risk exposure comprises the gross carrying amount without taking into account loan loss allowances, any collateral held (including risk transfer to guarantors), netting effects, other credit enhancements or credit risk mitigating transactions.
The gross carrying amount of the credit risk exposure of the Bank in 2017 increased for 1.4% or HRK 812 million from HRK 59.3 billion as at 31 December 2016 to HRK 60.1 billion as at 31 December 2017.
During the same period the gross carrying amount of the credit risk exposure of the Group increased for HRK 582 million from HRK 70.8 million to HRK 71.4 billion at the end of 2017.
The following tables show the reconciliation between the gross carrying amount and the net carrying amount of the separate components of the Group's and the Bank's credit risk exposure as at 31 December 2017 and 31 December 2016.

	GROUP		BANK	
in HRK million	Gross carrying amount	Carrying amount	Gross carrying amount	Carrying amount
2017				
Other demand deposits	413	413	283	283
Loans and advances to credit institutions	5,235	5,233	5,134	5,132
Loans and advances to customers	47,432	43,297	39,626	36,512
Held to maturity	1,886	1,878	1,396	1,391
Trading assets	195	195	195	195
Available for sale	7,756	7,756	7,352	7,352
Positive fair value of derivative financial instruments	52	52	55	55
Contingent credit liabilities	8,450	8,450	6,048	6,048
Total	**71,419**	**67,274**	**60,089**	**56,968**
2016				
Other demand deposits	548	548	450	450
Loans and advances to credit institutions	5,332	5,329	5,322	5,320
Loans and advances to customers	47,511	43,656	39,390	36,254
Held to maturity	1,661	1,653	1,142	1,137
Available for sale	7,566	7,566	7,131	7,131
Positive fair value of derivative financial instruments	73	73	76	76
Contingent credit liabilities	8,147	8,147	5,764	5,764
Total	**70,838**	**66,972**	**59,275**	**56,132**

34.4) Credit risk (continued)

Breakdown of credit risk exposure

The credit risk exposure presented below is divided into the following classes:
- by exposure classes and financial instrument,
- by industry and financial instrument,
- by risk category,
- by industry and risk category,
- by region and risk category,
- by business segment and risk category.

Thereafter is presented a breakdown of credit risk exposure to sovereigns by region and financial instrument.

This is followed by presentation of
- non-performing credit risk exposure by business segment and credit risk allowances,
- the composition of allowances,
- forbearance comparison with total credit risk exposure and allowances,
- credit risk exposure by business segment and collateral,
- credit risk exposure by financial instrument and collateral,
- credit risk exposure past due and not covered by specific allowances by financial instrument and collateralization,
- breakdown of loans to and receivables from customers by business segment and currency,
- breakdown of non-performing loans to and receivables from customers by business segment and coverage by loan loss allowances and collateral.

Credit risk exposure by Basel III exposure classes and financial instrument
The following table includes the Bank's (Group's) credit risk exposure broken down by Basel III exposure classes and financial instrument as at 31 December 2017 and 31 December 2016, respectively. The assignment of obligors to Basel III exposure classes is based on legal regulations. For reasons of clarity, individual Basel III exposure classes are presented in aggregated form in the table below and in other tables in the section Credit Risk.

Credit risk exposure by Basel III exposure classes and financial instrument

GROUP

				Debt instruments						
in HRK million	Other demand deposits	Loans and advances to credit institutions	Loans and advances to customers	Held to maturity	Trading assets	At fair value through profit or loss	Available for sale	Positive fair value of derivative financial instruments	Contingent credit liabilities	Credit risk exposure (gross)
		At amortised cost				Fair Value				
2017										
Sovereign	-	3,324	4,486	1,727	195	-	7,317	-	60	17,109
Institutions	413	1,911	3,431	-	-	-	282	41	503	6,581
Corporates	-	-	18,274	159	-	-	157	11	5,380	23,981
Retail	-	-	21,241	-	-	-	-	-	2,507	23,748
Total	**413**	**5,235**	**47,432**	**1,886**	**195**	**-**	**7,756**	**52**	**8,450**	**71,419**
2016										
Sovereign	-	3,132	5,988	1,502	-	-	7,025	-	69	17,716
Institutions	548	2,195	3,974	-	-	-	322	15	565	7,619
Corporates	-	5	17,124	159	-	-	219	58	5,333	22,898
Retail	-	-	20,425	-	-	-	-	-	2,180	22,605
Total	**548**	**5,332**	**47,511**	**1,661**	**-**	**-**	**7,566**	**73**	**8,147**	**70,838**

34.4) Credit risk (continued)

Credit risk exposure by Basel III exposure classes and financial instrument (continued)

BANK										
				Debt instruments						
in HRK million	Other demand deposits	Loans and advances to credit institutions	Loans and advances to customers	Held to maturity	Trading assets	At fair value through profit or loss	Available for sale	Positive fair value of derivative financial instruments	Contingent credit liabilities	Credit risk exposure (gross)
		At amortised cost			Fair Value					
2017										
Sovereign	-	3,324	4,200	1,237	195	-	6,913	-	60	15,929
Institutions	283	1,810	3,429	-	-	-	282	41	336	6,181
Corporates	-	-	15,564	159	-	-	157	14	4,649	20,543
Retail	-	-	16,433	-	-	-	-	-	1,003	17,436
Total	**283**	**5,134**	**39,626**	**1,396**	**195**	**-**	**7,352**	**55**	**6,048**	**60,089**
2016										
Sovereign	-	3,132	5,374	983	-	-	6,590	-	46	16,125
Institutions	450	2,190	3,884	-	-	-	322	15	332	7,193
Corporates	-	-	14,221	159	-	-	219	61	4,452	19,112
Retail	-	-	15,911	-	-	-	-	-	934	16,845
Total	**450**	**5,322**	**39,390**	**1,142**	**-**	**-**	**7,131**	**76**	**5,764**	**59,275**

34.4) Credit risk (continued)

Credit risk exposure by industry and financial instrument
The following table includes the Bank's (Group's) credit risk exposure broken down by industry and financial instruments for reporting dates.

Credit risk exposure by industry and financial instrument

										GROUP
				Debt instruments						
in HRK million	Other demand deposits	Loans and advances to credit institutions	Loans and advances to customers	Held to maturity	Trading assets	At fair value through profit or loss	Available for sale	Positive fair value of derivative financial instruments	Contingent credit liabilities	Credit risk exposure (gross)
		At amortised cost				Fair Value				
2017										
Agriculture, forestry	-	-	1,598	-	-	-	-	-	146	1,744
Mining	-	-	99	-	-	-	-	-	107	206
Manufacturing	-	-	3,411	-	-	-	14	-	1,287	4,712
Energy	-	-	553	-	-	-	-	5	349	907
Water supply	-	-	320	-	-	-	-	-	61	381
Construction	-	-	3,719	-	-	-	11	-	926	4,656
Trade	-	-	4,477	-	-	-	46	-	1,550	6,073
Transport	-	-	1,406	-	-	-	66	-	239	1,711
Hotels and restaurants	-	-	2,488	-	-	-	-	-	234	2,722
Communication	-	-	212	-	-	-	-	-	105	317
Financial and insurance services	413	5,235	1,124	-	-	-	769	45	308	7,894
Real estate	-	-	1,313	160	-	-	20	1	53	1,547
Professional activities	-	-	1,311	-	-	-	-	1	287	1,599
Administrative and support service activities	-	-	493	-	-	-	-	-	84	577
Public administration	-	-	4,835	1,726	195	-	6,830	-	46	13,632
Education	-	-	37	-	-	-	-	-	13	50
Health services	-	-	410	-	-	-	-	-	130	540
Art	-	-	296	-	-	-	-	-	118	414
Private households	-	-	19,242	-	-	-	-	-	2,375	21,617
Others	-	-	88	-	-	-	-	-	32	120
Total	**413**	**5,235**	**47,432**	**1,886**	**195**	**-**	**7,756**	**52**	**8,450**	**71,419**
2016										
Agriculture, forestry	-	-	1,138	-	-	-	-	-	189	1,327
Mining	-	-	129	-	-	-	-	-	115	244
Manufacturing	-	-	3,228	-	-	-	40	4	1,376	4,648
Energy	-	-	314	-	-	-	-	3	53	370
Water supply	-	-	285	-	-	-	-	-	51	336
Construction	-	-	4,387	-	-	-	11	-	888	5,286
Trade	-	-	4,921	-	-	-	45	-	1,368	6,334
Transport	-	-	1,353	-	-	-	80	-	133	1,566
Hotels and restaurants	-	-	2,389	-	-	-	-	-	299	2,688
Communication	-	1	313	-	-	-	-	-	53	367
Financial and insurance services	548	5,331	1,095	2	-	-	944	62	400	8,382
Real estate	-	-	1,059	159	-	-	44	1	220	1,483
Professional activities	-	-	1,143	-	-	-	-	2	337	1,482
Administrative and support service activities	-	-	418	-	-	-	-	-	74	492
Public administration	-	-	6,200	1,500	-	-	6,402	1	92	14,195
Education	-	-	47	-	-	-	-	-	10	57
Health services	-	-	258	-	-	-	-	-	212	470
Art	-	-	207	-	-	-	-	-	202	409
Private households	-	-	18,535	-	-	-	-	-	2,062	20,597
Others	-	-	92	-	-	-	-	-	13	105
Total	**548**	**5,332**	**47,511**	**1,661**	**-**	**-**	**7,566**	**73**	**8,147**	**70,838**

34.4) Credit risk (continued)

Credit risk exposure by industry and financial instrument (continued)

BANK

in HRK million	Other demand deposits	Loans and advances to credit institutions	Loans and advances to customers	Held to maturity	Trading assets	At fair value through profit or loss	Available for sale	Positive fair value of derivative financial instruments	Contingent credit liabilities	Credit risk exposure (gross)
				Debt instruments						
		At amortised cost			Fair Value					
2017										
Agriculture, forestry	-	-	1,172	-	-	-	-	-	143	1,315
Mining	-	-	89	-	-	-	-	-	69	158
Manufacturing	-	-	2,898	-	-	-	14	-	1,252	4,164
Energy	-	-	479	-	-	-	-	5	346	830
Water supply	-	-	206	-	-	-	-	-	61	267
Construction	-	-	3,400	-	-	-	11	-	834	4,245
Trade	-	-	2,905	-	-	-	46	-	951	3,902
Transport	-	-	917	-	-	-	66	-	224	1,207
Hotels and restaurants	-	-	2,398	-	-	-	-	-	231	2,629
Communication	-	-	198	-	-	-	-	-	112	310
Financial and insurance services	283	5,134	1,470	-	-	-	529	48	198	7,662
Real estate	-	-	1,278	160	-	-	20	1	53	1,512
Professional activities	-	-	1,180	-	-	-	-	1	276	1,457
Administrative and support service activities	-	-	271	-	-	-	-	-	63	334
Public administration	-	-	4,598	1,236	195	-	6,666	-	46	12,741
Education	-	-	31	-	-	-	-	-	13	44
Health services	-	-	288	-	-	-	-	-	130	418
Art	-	-	257	-	-	-	-	-	118	375
Private households	-	-	15,515	-	-	-	-	-	896	16,411
Others	-	-	76	-	-	-	-	-	32	108
Total	**283**	**5,134**	**39,626**	**1,396**	**195**	**-**	**7,352**	**55**	**6,048**	**60,089**
2016										
Agriculture, forestry	-	-	877	-	-	-	-	-	188	1,065
Mining	-	-	119	-	-	-	-	-	82	201
Manufacturing	-	-	2,687	-	-	-	40	4	1,343	4,074
Energy	-	-	236	-	-	-	-	3	53	292
Water supply	-	-	226	-	-	-	-	-	51	277
Construction	-	-	4,109	-	-	-	11	-	781	4,901
Trade	-	-	2,700	-	-	-	45	-	716	3,461
Transport	-	-	918	-	-	-	80	-	113	1,111
Hotels and restaurants	-	-	2,286	-	-	-	-	-	299	2,585
Communication	-	-	255	-	-	-	-	-	53	308
Financial and insurance services	450	5,321	1,668	-	-	-	700	65	161	8,365
Real estate	-	-	1,022	159	-	-	44	1	193	1,419
Professional activities	-	-	1,015	-	-	-	-	2	333	1,350
Administrative and support service activities	-	-	266	-	-	-	-	-	67	333
Public administration	-	-	5,532	983	-	-	6,211	1	70	12,797
Education	-	-	42	-	-	-	-	-	9	51
Health services	-	-	199	-	-	-	-	-	212	411
Art	-	-	171	-	-	-	-	-	201	372
Private households	-	-	14,980	-	-	-	-	-	826	15,806
Others	-	1	82	-	-	-	-	-	13	96
Total	**450**	**5,322**	**39,390**	**1,142**	**-**	**-**	**7,131**	**76**	**5,764**	**59,275**

34.4) Credit risk (continued)

Credit risk exposure by risk category
The following table presents the credit risk exposure of the Bank and the Group divided by risk category as at 31 December 2017, compared with the credit risk exposure as at 31 December 2016.

Credit risk exposure by risk category

					GROUP
in HRK million	Low risk	Management attention	Substandard	Non-performing	Credit risk exposure
Credit risk exposure 2017	57,205	7,166	1,147	5,901	71,419
Share of credit risk exposure	80.10%	10.03%	1.61%	8.26%	
Credit risk exposure 2016	56,787	7,393	1,238	5,420	70,838
Share of credit risk exposure	80.16%	10.44%	1.75%	7.65%	
Change in credit risk exposure from 2016 to 2017	418	(227)	(91)	481	581
Change in credit risk exposure in %	0.74%	(3.08%)	(7.36%)	8.88%	0.82%

					BANK
in HRK million	Low risk	Management attention	Substandard	Non-performing	Credit risk exposure
Credit risk exposure 2017	49,571	5,456	779	4,283	60,089
Share of credit risk exposure	82.50%	9.08%	1.30%	7.12%	
Credit risk exposure 2016	48,248	5,571	826	4,630	59,275
Share of credit risk exposure	81.40%	9.40%	1.39%	7.81%	
Change in credit risk exposure from 2016 to 2017	1,323	(115)	(47)	(347)	814
Change in credit risk exposure in %	2.74%	(2.09%)	(5.68%)	(7.48%)	1.37%

34.4) Credit risk (continued)

Credit risk exposure by industry and risk category
The following table presents the credit risk exposure of the Bank and the Group broken down by industry and risk category as at 31 December 2017 and 31 December 2016, respectively.

Credit risk exposure by industry and risk category

					GROUP
in HRK million	Low risk	Management attention	Substandard	Non-performing	Credit risk exposure
2017					
Agriculture, forestry	1,168	78	4	494	1,744
Mining	159	8	-	39	206
Manufacturing	3,676	501	64	471	4,712
Energy	872	-	3	32	907
Water supply	310	12	42	17	381
Construction	3,503	407	119	627	4,656
Trade	4,457	318	53	1,245	6,073
Transport	1,516	127	4	64	1,711
Hotels and restaurants	1,947	182	40	553	2,722
Communication	263	29	9	16	317
Financial and insurance services	7,584	301	2	7	7,894
Real estate	1,078	209	16	244	1,547
Professional activities	616	703	69	211	1,599
Administrative and support service activities	373	107	3	94	577
Public administration	13,513	119	-	-	13,632
Education	45	3	2	-	50
Health services	472	63	-	5	540
Art	379	16	12	7	414
Private households	15,191	3,965	701	1,760	21,617
Others	83	18	4	15	120
Total	**57,205**	**7,166**	**1,147**	**5,901**	**71,419**
2016					
Agriculture, forestry	1,097	144	5	81	1,327
Mining	192	11	-	41	244
Manufacturing	3,618	347	109	574	4,648
Energy	336	28	4	2	370
Water supply	259	7	17	53	336
Construction	4,119	434	61	672	5,286
Trade	5,109	569	59	597	6,334
Transport	1,412	81	7	66	1,566
Hotels and restaurants	1,915	162	46	565	2,688
Communication	279	5	-	83	367
Financial and insurance services	7,905	430	42	5	8,382
Real estate	906	310	31	236	1,483
Professional activities	558	597	45	282	1,482
Administrative and support service activities	299	70	2	121	492
Public administration	14,063	132	-	-	14,195
Education	50	5	1	1	57
Health services	448	16	1	5	470
Art	361	17	13	18	409
Private households	13,784	4,023	788	2,002	20,597
Others	77	5	7	16	105
Total	**56,787**	**7,393**	**1,238**	**5,420**	**70,838**

34.4) Credit risk (continued)

Credit risk exposure by industry and risk category (continued)

					BANK
in HRK million	Low risk	Management attention	Substandard	Non-performing	Credit risk exposure
2017					
Agriculture, forestry	1,028	75	4	208	1,315
Mining	112	8	-	38	158
Manufacturing	3,222	466	50	426	4,164
Energy	798	-	-	32	830
Water supply	217	5	28	17	267
Construction	3,318	261	101	565	4,245
Trade	3,264	146	40	452	3,902
Transport	1,079	67	2	59	1,207
Hotels and restaurants	1,884	163	32	550	2,629
Communication	286	5	8	11	310
Financial and insurance services	7,368	291	2	1	7,662
Real estate	1,052	200	16	244	1,512
Professional activities	550	648	68	191	1,457
Administrative and support service activities	201	43	2	88	334
Public administration	12,736	5	-	-	12,741
Education	39	3	2	-	44
Health services	407	7	-	4	418
Art	343	12	12	8	375
Private households	11,591	3,037	408	1,375	16,411
Others	76	14	4	14	108
Total	**49,571**	**5,456**	**779**	**4,283**	**60,089**
2016					
Agriculture, forestry	843	137	5	80	1,065
Mining	150	9	-	42	201
Manufacturing	3,154	314	101	505	4,074
Energy	264	22	4	2	292
Water supply	219	5	-	53	277
Construction	3,959	251	57	634	4,901
Trade	2,801	164	39	457	3,461
Transport	1,009	38	3	61	1,111
Hotels and restaurants	1,849	139	38	559	2,585
Communication	229	4	-	75	308
Financial and insurance services	7,905	417	42	1	8,365
Real estate	896	284	4	235	1,419
Professional activities	499	550	35	266	1,350
Administrative and support service activities	197	18	1	117	333
Public administration	12,795	2	-	-	12,797
Education	44	5	1	1	51
Health services	395	11	1	4	411
Art	330	15	12	15	372
Private households	10,639	3,182	477	1,508	15,806
Others	71	4	6	15	96
Total	**48,248**	**5,571**	**826**	**4,630**	**59,275**

34.4) Credit risk (continued)

Credit risk exposure by region and risk category
The following table presents the credit risk exposure of the Bank (Group) divided by region and risk category as at 31 December 2017 and 31 December 2016.

Credit risk exposure by region and risk category

					GROUP
in HRK million	Low risk	Management attention	Substandard	Non-performing	Credit risk exposure
2017					
Erste Group markets	**52,403**	**6,171**	**1,029**	**5,728**	**65,331**
Austria	1,904	1	-	-	1,905
Croatia	48,985	6,135	1,014	5,706	61,840
Serbia	6	5	-	1	12
Slovakia	574	-	-	-	574
Slovenia	934	29	15	21	999
Czech Republic	-	1	-	-	1
Other EU countries	**1,011**	**10**	**8**	**27**	**1,056**
Other developed countries	**430**	**7**	**1**	**15**	**453**
Emerging markets	**3,361**	**978**	**109**	**131**	**4,579**
Southeastern Europe/CIS	3,343	976	109	131	4,559
Asia	18	2	-	-	20
Latin Amerika	-	-	-	-	-
Middle East/Africa	-	-	-	-	-
Total	**57,205**	**7,166**	**1,147**	**5,901**	**71,419**
2016					
Erste Group markets	**52,815**	**6,565**	**1,092**	**5,251**	**65,723**
Austria	2,606	-	-	-	2,606
Croatia	48,483	6,539	1,029	5,240	61,291
Serbia	62	5	-	-	67
Slovakia	933	-	-	-	933
Slovenia	730	21	63	11	825
Hungary	1	-	-	-	1
Other EU countries	**917**	**12**	**4**	**29**	**962**
Other developed countries	**252**	**8**	**-**	**15**	**275**
Emerging markets	**2,803**	**808**	**142**	**125**	**3,878**
South Eastern Europe/CIS	2,800	805	142	125	3,872
Asia	2	2	-	-	4
Latin Amerika	-	1	-	-	1
Middle East/Africa	1	-	-	-	1
Total	**56,787**	**7,393**	**1,238**	**5,420**	**70,838**

34.4) Credit risk (continued)

Credit risk exposure by region and risk category (continued)

					BANK
in HRK million	Low risk	Management attention	Substandard	Non-performing	Credit risk exposure
2017					
Erste Group markets	**47,188**	**5,442**	**777**	**4,239**	**57,646**
Austria	1,803	1	-	-	1,804
Croatia	44,745	5,436	777	4,238	55,196
Serbia	6	1	-	1	8
Slovakia	573	-	-	-	573
Slovenia	61	3	-	-	64
Czech Republic	-	1	-	-	1
Other EU countries	**971**	**8**	**2**	**27**	**1,008**
Other industrialised countries	**430**	**1**	**-**	**15**	**446**
Emerging markets	**982**	**5**	**-**	**2**	**989**
South Eastern Europe/CIS	963	3	-	2	968
Asia	19	2	-	-	21
Total	**49,571**	**5,456**	**779**	**4,283**	**60,089**
2016					
Erste Group markets	**46,447**	**5,518**	**823**	**4,585**	**57,373**
Austria	2,562	-	-	-	2,562
Croatia	42,875	5,515	823	4,585	53,798
Serbia	62	1	-	-	63
Slovakia	933	-	-	-	933
Slovenia	14	2	-	-	16
Hungary	1	-	-	-	1
Other EU countries	**852**	**10**	**2**	**29**	**893**
Other industrialised countries	**248**	**1**	**-**	**15**	**264**
Emerging markets	**701**	**42**	**1**	**1**	**745**
Southeastern Europe/CIS	699	40	1	1	741
Asia	2	2	-	-	4
Total	**48,248**	**5,571**	**826**	**4,630**	**59,275**

34.4) Credit risk (continued)

Credit risk exposure by business segment and risk category
The reporting segment of the Bank (Group) is based on the matrix organization by business segment and risk category. The following tables show the credit risk exposure of Bank (Group) broken down by reporting segments and risk category as at 31 December 2017 and 31 December 2016.

Credit risk exposure by business segment and risk category

					GROUP
n HRK million	Low risk	Management attention	Substandard	Non-performing	Credit risk exposure
2017					
Retail	16,204	4,317	739	1,962	23,222
Small and Medium Enterprises	13,255	1,343	274	1,597	16,469
Local Large Corporates	2,302	942	93	382	3,719
Public sector	7,779	236	-	6	8,021
Group Large Corporates	959	-	-	1,143	2,102
Commercial Real Estate	787	37	4	792	1,620
Group Market Trading	952	274	35	-	1,261
Group Market Financial Institutions	506	6	-	-	512
Asset/Liability Management	14,378	1	-	4	14,383
Other	83	10	2	15	110
Total	**57,205**	**7,166**	**1,147**	**5,901**	**71,419**
2016					
Retail	14,664	4,348	840	2,258	22,110
Small and Medium Enterprises	11,714	1,206	243	1,974	15,137
Local Large Corporates	2,284	879	77	194	3,434
Public sector	10,125	141	-	43	10,309
Group Large Corporates	2,318	257	-	2	2,577
Commercial Real Estate	468	92	36	934	1,530
Group Market Trading	2,145	436	39	-	2,620
Group Market Financial Institutions	548	26	1	-	575
Asset/Liability Management	12,447	-	-	-	12,447
Other	74	8	2	15	99
Total	**56,787**	**7,393**	**1,238**	**5,420**	**70,838**

					BANK
in HRK million	Low risk	Management attention	Substandard	Non-performing	Credit risk exposure
2017					
Retail	12,312	3,257	443	1,561	17,573
Small and Medium Enterprises	10,929	827	222	1,408	13,386
Local Large Corporates	2,213	924	73	333	3,543
Public sector	7,467	123	-	5	7,595
Group Large Corporates	844	-	-	184	1,028
Commercial Real Estate	787	35	4	780	1,606
Group Market Trading	1,121	274	35	-	1,430
Group Market Financial Institutions	498	5	-	-	503
Asset/Liability Management	13,314	-	-	-	13,314
Other	86	11	2	12	111
Total	**49,571**	**5,456**	**779**	**4,283**	**60,089**
2016					
Retail	11,307	3,392	523	1,742	16,964
Small and Medium Enterprises	9,506	836	168	1,749	12,259
Local Large Corporates	2,051	787	57	159	3,054
Public sector	9,470	11	-	42	9,523
Group Large Corporates	964	-	-	2	966
Commercial Real Estate	467	76	36	922	1,501
Group Market Trading	2,417	436	39	-	2,892
Group Market Financial Institutions	540	26	1	-	567
Asset/Liability Management	11,452	-	-	-	11,452
Other	74	7	2	14	97
Total	**48,248**	**5,571**	**826**	**4,630**	**59,275**

34.4) Credit risk (continued)

Credit risk exposure to sovereigns by region and financial instrument
The following tables show the credit risk exposure of the Bank (Group) to sovereigns broken down by region and financial instrument as at 31 December 2017 and 31 December 2016, respectively. The assignment of obligors to sovereigns is based on Basel III exposure classes.

Credit risk exposure to sovereigns by region and financial instrument

										GROUP
				Debt instruments						
in HRK million	Other demand deposits	Loans and advances to credit institutions	Loans and advances to customers	Held to maturity	Trading assets	At fair value through profit or loss	Available for sale	Positive fair value of derivative financial instruments	Contingent credit liabilities	Credit risk exposure
		At amortised cost			Fair Value					
2017										
Erste Group markets	**-**	**3,324**	**4,085**	**1,123**	**195**	**-**	**6,115**	**-**	**39**	**14,881**
Austria	-	-	-	-	-	-	-	-	-	-
Croatia	-	3,324	4,085	1,123	195	-	5,542	-	39	14,308
Slovakia	-	-	-	-	-	-	573	-	-	573
Other EU countries	**-**	**-**	**-**	**-**	**-**	**-**	**384**	**-**	**-**	**384**
Other developed countries	**-**	**-**	**-**	**-**	**-**	**-**	**376**	**-**	**-**	**376**
Emerging markets	**-**	**-**	**401**	**604**	**-**	**-**	**442**	**-**	**21**	**1,468**
Southeastern Europe/CIS	-	-	401	604	-	-	442	-	21	1,468
Total	**-**	**3,324**	**4,486**	**1,727**	**195**	**-**	**7,317**	**-**	**60**	**17,109**
2016								**-**		
Erste Group markets	**-**	**3,132**	**5,764**	**869**	**-**	**-**	**5,967**	**-**	**-**	**15,732**
Austria	-	-	-	-	-	-	158	-	-	158
Croatia	-	3,132	5,764	869	-	-	4,876	-	-	14,641
Slovakia	-	-	-	-	-	-	933	-	-	933
Other EU countries	**-**	**-**	**-**	**-**	**-**	**-**	**378**	**-**	**-**	**378**
Other developed countries	**-**	**-**	**-**	**-**	**-**	**-**	**215**	**-**	**-**	**215**
Emerging markets	**-**	**-**	**224**	**633**	**-**	**-**	**465**	**-**	**69**	**1,391**
Southeastern Europe/CIS	-	-	224	633	-	-	465	-	69	1,391
Total	**-**	**3,132**	**5,988**	**1,502**	**-**	**-**	**7,025**	**-**	**69**	**17,716**

34.4) Credit risk (continued)

Credit risk exposure to sovereigns by region and financial instrument (continued)

										BANK
				Debt instruments						
in HRK million	Other demand deposits	Loans and advances to credit institutions	Loans and advances to customers	Held to maturity	Trading assets	At fair value through profit or loss	Available for sale	Positive fair value of derivative financial instruments	Contingent credit liabilities	Credit risk exposure
		At amortised cost			Fair Value					
2017										
Erste Group markets	**-**	**3,324**	**4,012**	**1,123**	**195**	**-**	**5,875**	**-**	**39**	**14,568**
Austria	-	-	-	-	-	-	-	-	-	-
Croatia	-	3,324	4,012	1,123	195	-	5,302	-	39	13,995
Slovakia	-	-	-	-	-	-	573	-	-	573
Other EU countries	**-**	**-**	**-**	**-**	**-**	**-**	**384**	**-**	**-**	**384**
Other developed countries	**-**	**-**	**-**	**-**	**-**	**-**	**376**	**-**	**-**	**376**
Emerging markets	**-**	**-**	**188**	**114**	**-**	**-**	**278**	**-**	**21**	**601**
Southeastern Europe/CIS	-	-	188	114	-	-	278	-	21	601
Total	**-**	**3,324**	**4,200**	**1,237**	**195**	**-**	**6,913**	**-**	**60**	**15,929**
2016										
Erste Group markets	**-**	**3,132**	**5,347**	**869**	**-**	**-**	**5,723**	**-**	**-**	**15,071**
Austria	-	-	-	-	-	-	158	-	-	158
Croatia	-	3,132	5,347	869	-	-	4,632	-	-	13,980
Slovakia	-	-	-	-	-	-	933	-	-	933
Other EU countries	**-**	**-**	**-**	**-**	**-**	**-**	**378**	**-**	**-**	**378**
Other developed countries	**-**	**-**	**-**	**-**	**-**	**-**	**215**	**-**	**-**	**215**
Emerging markets	**-**	**-**	**27**	**114**	**-**	**-**	**274**	**-**	**46**	**461**
Southeastern Europe/CIS	-	-	27	114	-	-	274	-	46	461
Total	**-**	**3,132**	**5,374**	**983**	**-**	**-**	**6,590**	**-**	**46**	**16,125**

34.4) Credit risk (continued)

Non-performing credit risk exposure and allowances for credit risks

For the definition of credit risk exposure classified as non-performing, please refer to the description of risk categories in the subsection Internal rating system.

Credit risk allowances (specific and portfolio allowances) in the Bank covered 76% of the reported non-performing credit risk exposure as at 31 December 2017 and 73% in the Group. For the portion of the non-performing credit risk exposure that is not covered by allowances, the Bank assumes there are sufficient levels of collateral and expected other recoveries.

In the 12 months period ended on 31 December 2017, the non-performing credit risk exposure in the Bank decreased by HRK 347 million, from HRK 4.6 billion as at 31 December 2016 to HRK 4.3 billion as at 31 December 2017. During the same period, non-performing credit risk exposure in the Group increased by HRK 481 million from HRK 5.4 billion as at 31 December 2016 to HRK 5.9 billion as at 31 December 2017.

Credit risk allowances were increased by HRK 270 million in the Group, from HRK 4.0 billion as at 31 December 2016 to HRK 4.3 billion as at 31 December 2017. The decrease of credit risk allowances in the Bank during 2017 was HRK 30 million, from HRK 3.3 billion as at 31 December 2016 to 3.2 billion as at 31 December 2017. The higher decrease of non-performing credit risk exposure than credit risk allowances in the Bank resulted with increase of the coverage of the non-performing credit risk exposure by credit risk allowances by 5.02 pp: from 70.7% up to 75.7%, while in Group higher increase of non-performing credit risk exposure than credit risk allowance was recorded so coverage of the non-performing credit risk exposure by credit risk allowances is decreasing by 1.5 pp from 74.3% to 72.8%.

The following tables show the coverage of the non-performing credit risk exposure across the reporting segments by credit risk allowances (without taking into consideration collateral) as at 31 December 2017 and 31 December 2016, respectively. The differences in provisioning levels for the segments result from the risk situation in the respective markets and different levels of collateralization.
The non-performing exposure (NPE ratio) is calculated by dividing non-performing credit risk exposure by total credit risk exposure. The non-performing exposure coverage ratio (NPE coverage ratio) is calculated by dividing the sum of specific and collective allowances by non-performing credit risk exposure. Collateral or other recoveries are not taken into account.

34.4) Credit risk (continued)

Non-performing credit risk exposure by business segment and credit risk allowances

								GROUP
	Credit risk exposure							
in HRK million	Non-performing	Credit risk exposure	Specific allowances for individually assessed financial assets	Specific allowances for collectively assessed financial assets	Collective allowances for incurrred but not reported losses	Risk provisions	NPE ratio	NPE coverage ratio
2017								
Retail	1,962	23,222	248	1,062	197	1,507	8%	77%
Small and Medium Enterprises	1,597	16,469	873	183	290	1,346	10%	84%
Local Large Corporates	382	3,719	264	3	48	315	10%	82%
Public sector	6	8,021	-	1	44	45	-	739%
Group Large Corporates	1,143	2,102	427	5	15	447	54%	39%
Commercial Real Estate	792	1,620	584	3	21	608	49%	77%
Group Market Trading	-	1,261	-	-	2	2	-	-
Group Market Financial Institutions	-	512	-	-	2	2	-	-
Asset/Liability Management	4	14,383	-	2	8	10	-	243%
Other	15	110	7	4	2	13	13%	86%
Total	**5,901**	**71,419**	**2,403**	**1,263**	**629**	**4,295**	**8%**	**73%**
2016								
Retail	2,258	22,110	265	1,151	192	1,608	10%	71%
Small and Medium Enterprises	1,974	15,137	993	206	248	1,447	13%	73%
Local Large Corporates	194	3,434	87	7	56	150	6%	77%
Public sector	43	10,309	37	-	46	83	-	193%
Group Large Corporates	2	2,577	-	-	37	37	-	1,740%
Commercial Real Estate	934	1,530	641	3	21	665	61%	71%
Group Market Trading	-	2,620	-	-	2	2	-	-
Group Market Financial Institutions	-	575	-	-	-	-	-	-
Asset/Liability Management	-	12,447	-	-	17	17	-	-
Other	15	99	11	4	3	18	15%	105%
Total	**5,420**	**70,838**	**2,034**	**1,371**	**622**	**4,027**	**8%**	**74%**

34.4) Credit risk (continued)

Non-performing credit risk exposure by business segment and credit risk allowances (continued)

								BANK
	Credit risk exposure							
in HRK million	Non-performing	Credit risk exposure	Specific allowances for individually assessed financial assets	Specific allowances for collectively assessed financial assets	Collective allowances for incurred but not reported losses	Risk provisions	NPE ratio	NPE coverage ratio
2017								
Retail	1,561	17,573	243	762	102	1,107	9%	71%
Small and Medium Enterprises	1,408	13,386	820	95	249	1,164	11%	83%
Local Large Corporates	333	3,543	241	1	47	289	9%	87%
Public sector	5	7,595	-	-	42	42	-	789%
Group Large Corporates	184	1,028	12	-	15	27	18%	15%
Commercial Real Estate	780	1,606	573	2	21	596	49%	76%
Group Market Trading	-	1,430	-	-	2	2	-	-
Group Market Financial Institutions	-	503	-	-	2	2	-	-
Asset/Liability Management	-	13,314	-	-	2	2	-	-
Other	12	111	7	3	2	12	11%	94%
Total	**4,283**	**60,089**	**1,896**	**863**	**484**	**3,243**	**7%**	**76%**
2016								
Retail	1,742	16,964	258	778	105	1,141	10%	65%
Small and Medium Enterprises	1,749	12,259	929	86	214	1,229	14%	70%
Local Large Corporates	159	3,054	69	7	52	128	5%	80%
Public sector	42	9,523	37	-	45	82	-	197%
Group Large Corporates	2	966	-	-	16	16	-	749%
Commercial Real Estate	922	1,501	631	2	21	654	61%	71%
Group Market Trading	-	2,892	-	-	2	2	-	-
Group Market Financial Institutions	-	567	-	-	-	-	-	-
Asset/Liability Management	-	11,452	-	-	6	6	-	-
Other	14	97	10	3	1	14	15%	105%
Total	**4,630**	**59,275**	**1,934**	**876**	**462**	**3,272**	**8%**	**71%**

34.4) Credit risk (continued)

The general principles and standards for credit risk allowances within the Bank follow the Erste Group's procedures, international standards and are described in internal policies.

The Bank, in line with regulatory and accounting standards, evaluates the need and allocates credit risk allowances for expected losses. Allowances are calculated:
- For financial assets carried at amortised cost (loans and receivables, financial assets held to maturity) in accordance with IAS 39, and
- For off-balance liabilities (guarantees, loan commitments) in accordance with IAS 37.

The process of provisioning for credit losses includes the default on the customer level, impairment identification and the type of assessment (individual or collective). Customer level means, if one of the customer's exposures is classified as defaulted then all of that customer's exposures are classified as defaulted.

During the process the bank distinguishes between:
- Specific allowances calculated for exposures to defaulted customers that are deemed to be impaired, and
- Collective allowances (allowances for incurred but not reported losses) calculated for exposures to non-defaulted customers or defaulted customers that are not deemed to be impaired.

For the calculation of specific allowances, the discounted cash flow model is applied. This means that a difference between carrying amount and net present value (NPV) of the expected cash flows leads to an impairment and defines the amount of the allowancing requirement. All estimated interest and redemption payments as well as estimated collateral recoveries and costs for selling and obtaining collateral are considered as expected cash flows.
The calculation of specific allowances is performed either on an individual basis or rule-based. In case of significant customers, expected cash flows are estimated individually by workout or risk managers. A customer is considered as significant if the total exposure defined as the sum of all on and off-balance sheet exposures exceeds a determined materiality limit. Otherwise, the customer is considered as insignificant and a rule-based approach is used for the calculation of the allowance. Under this approach, specific allowances are calculated as a multiplication of the carrying amount and the loss given default (LGD), where LGD reflects time in default or the stage of workout process.

Collective allowances are calculated on exposures to non-defaulted customers for which a default has not been detected or reported. The level of collective allowances depends on the carrying amount, the PD, the LGD and the loss identification period (LIP). The LIP parameter is critically examined and the back-testing of the LIP parameter is performed in form of an independent recalculation of the parameter in accordance with the Group methodology. Currently used LIP equals to 1. Collective allowances are calculated by using the Banks or Erste Group's historical data about PD by rating, with calculated Loss Given Default (LGD) by product types for Retail (private individuals) and LGD depending on the level of client's collateralization for certain rating methods and assumed 45% LGD for all other client's.

The following table shows the credit risk allowances divided into specific and collective allowances and allowances for guarantees and loan commitments as at 31 December 2017 and 31 December 2016, respectively.

	GROUP		BANK	
In HRK million	**2017**	**2016**	**2017**	**2016**
Specific allowances	3,645	3,376	2,746	2,787
Collective allowances	500	490	375	356
Provision for guarantees and loan commitments	150	161	122	129
Total	**4,295**	**4,027**	**3,243**	**3,272**

34.4) Credit risk (continued)

Restructuring, renegotiation and forbearance

Restructuring means contractual modification of any of the customer's loan repayment conditions including tenor, interest rate, fees, principle amount due or a combination thereof. Restructuring can be business restructuring (in retail) and commercial renegotiation (in corporate) or forbearance in line with EBA requirements in both segments.

Business restructuring and renegotiation
Restructuring as business restructuring in the retail segment or as commercial renegotiation in the corporate segment is a potential and effective customer retention tool involving re-pricing or the offering of an additional loan or both in order to maintain the bank's valuable, good clientele.

Forbearance
In case the restructuring entails a concession towards a customer facing or about to face financial difficulties in meeting their contractual financial commitments, the restructuring is considered forbearance.
Forborne exposure is assessed at loan contract level and means only the exposure to which forbearance measures have been extended and excludes any other exposure the customer may have, as long as no forbearance was extended to these.

Concession means that any of the following conditions are met:
- Modification/refinancing of the contract would not have been granted, had the customer not been in financial difficulty,
- There is a difference in favour of the customer between the modified/refinanced and the previous terms of the contract,
- The modified/refinanced contract includes more favourable terms than other customers with similar risk profile could have obtained from the Bank.

Forbearance can be initiated by the Bank or by the customer (on account of loss of employment, illness etc.).

Forbearance measures are divided and reported as:
- Performing forbearance (incl. performing forbearance under probation that was upgraded from non-performing forbearance)
- Non-performing forbearance.

34.4) Credit risk (continued)

In the table below, comparison of forbearance and credit risk exposure and allowances is given for the Bank and the Group for 31 December 2017 and 31 December 2016. In this table, total credit risk exposure does not include *Trading assets*, *Positive fair value of derivative financial instruments and Financial guarantees* while includes Cash balances at central banks.

Forbearance comparison with total credit risk exposure and allowances

GROUP				
in HRK million	Loans and advances excl. HfT	Debt Instruments excl. HfT	Loan commitments	Total
2017				
Gross exposure	55,815	9,642	8,450	**73,907**
thereof gross forborne exposure	1,400	-	6	**1,406**
Performing exposure	49,985	9,642	8,379	**68,006**
thereof performing forborne exposure	321	-	4	**325**
Allowances/provisions for performing exposure	492	8	67	**567**
thereof allowances/provisions for performing forborne exposure	26	-	-	**26**
Non-performing exposure	5,830	-	71	**5,901**
thereof non-performing forborne exposure	1,079	-	2	**1,081**
Allowances/provisions for non-performing exposure	3,645	-	9	**3,654**
thereof allowances/provisions for non-performing forborne exposure	553	-	-	**553**
2016				
Gross exposure	56,015	9,226	8,147	**73,388**
thereof gross forborne exposure	1,552	-	1	**1,553**
Performing exposure	50,691	9,226	8,051	**67,968**
thereof performing forborne exposure	373	-	-	**373**
Allowances/provisions for performing exposure	472	7	70	**549**
thereof allowances/provisions for performing forborne exposure	15	-	-	**15**
Non-performing exposure	5,324	-	96	**5,420**
thereof non-performing forborne exposure	1,179	-	1	**1,180**
Allowances/provisions for non-performing exposure	3,386	-	6	**3,392**
thereof allowances/provisions for non-performing forborne exposure	536	-	-	**536**

34.4) Credit risk (continued)

Forbearance comparison with total credit risk exposure and allowances (continued)

				BANK
in HRK million	Loans and advances excl. HfT	Debt Instruments excl. HfT	Loan commitments	Total
2017				
Gross exposure	47,564	8,746	6,048	**62,358**
thereof gross forborne exposure	1,169	-	6	**1,175**
Performing exposure	43,318	8,746	6,010	**58,074**
thereof performing forborne exposure	305	-	4	**309**
Allowances/provisions for performing exposure	371	5	58	**434**
thereof allowances/provisions for performing forborne exposure	25	-	-	**25**
Non-performing exposure	4,246	-	38	**4,284**
thereof non-performing forborne exposure	864	-	2	**866**
Allowances/provisions for non-performing exposure	2,745	-	3	**2,748**
thereof allowances/provisions for non-performing forborne exposure	408	-	-	**408**
2016				
Gross exposure	47,348	8,273	5,764	**61,385**
thereof gross forborne exposure	1,471	-	1	**1,472**
Performing exposure	42,777	8,273	5,705	**56,755**
thereof performing forborne exposure	368	-	-	**368**
Allowances/provisions for performing exposure	342	5	62	**409**
thereof allowances/provisions for performing forborne exposure	15	-	-	**15**
Non-performing exposure	4,571	-	59	**4,630**
thereof non-performing forborne exposure	1,103	-	1	**1,104**
Allowances/provisions for non-performing exposure	2,796	-	-	**2,796**
thereof allowances/provisions for non-performing forborne exposure	470	-	-	**470**

Collateral

Recognition of collateral
The Collateral Management unit is a staff unit within the Collection and Work-out Division. The Collateral Management Policy defines, among other things, uniform valuation standards for credit collateral across the entire Bank. It ensures that the credit risk decision processes are standardised with respect to accepted collateral values.

All the collateral types acceptable within the Bank are defined by internal acts. The valuation and revaluation of collateral is done according to the principles defined in the Collateral Management Policy broken down by class in accordance with the individual supervisory requirements. Whether a type of security or a specific collateral asset is accepted for credit risk mitigation is decided by Collection and Work-out department in cooperation with Risk Management Division after determining if the applicable regulatory capital requirements are met.

Main types of collateral
The following types of collateral are the most frequently accepted and are currently held:

- Real estate: This includes both private and commercial real estate
- Financial collateral: This category primarily includes securities portfolios and cash deposits
- Guarantees: Guarantees are provided mainly by governments, banks. All guarantors must have a minimum credit quality, in accordance with regulatory requirements.

Other types of collateral, such as real collateral in the form of movable property, on-balance sheet netting, investment funds, and life insurance policies are accepted less frequently.

34.4) Credit risk (continued)

Collateral valuation and management
Collateral valuation is based on current market prices while taking into account an amount that can be recovered within a reasonable period.
When calculating collateral coverage, the amount of coverage is adjusted through corrective factors, depending on the collateral type. Coverage by collateral disclosed in the financial statements is capped to the amount of relevant exposure. Only independent appraisers not involved in the lending decision process are permitted to conduct real estate valuations, and the valuation methods to be applied are defined. For quality assurance purposes, the real estate valuations are validated on an ongoing basis.

The methods and discounts used for valuations are based on empirical data representing past experience of the Collection and Work-out department and on the collected data on loss recovery from realising collateral. The valuation methods are adjusted regularly – at least once a year – to reflect current recoveries. Financial collateral assets are recognised at market value.

The revaluation of collateral is done periodically and is automated as far as possible. The maximum periods for the revaluation of individual collateral assets are predefined and compliance is monitored by Collateral Management unit. Apart from periodic revaluations, collateral is assessed when information becomes available that indicates a decrease in the value of the collateral for exceptional reasons.

Collateral obtained in foreclosure proceedings is made available for sale in an orderly fashion, with the proceeds used to reduce or repay the outstanding claim. Generally, the Group does not occupy repossessed properties for its own business use. The main part of assets taken onto its own books is commercial land and buildings as well as residential real estate properties.

The following tables compare the credit risk exposure broken down by business and geographical segments as at 31 December 2017 and 31 December 2016 respectively to the collateral received.

Credit risk exposure by business segment and collateral

						GROUP
in HRK million	**Credit risk exposure**	**Collateral total**	**Guarantees**	**Real estate**	**Other**	**Credit risk exposure net of collateral**
2017						
Retail	23,222	7,698	22	6,250	1,426	15,524
Small and Medium Enterprises	16,469	7,818	616	5,536	1,666	8,651
Local Large Corporates	3,719	2,242	1,448	476	318	1,477
Public sector	8,021	2,599	2,384	61	154	5,422
Group Large Corporates	2,102	116	30	62	24	1,986
Commercial Real Estate	1,620	783	-	752	31	837
Group Market Trading	1,261	859	-	-	859	402
Group Market Financial Institutions	512	42	-	14	28	470
Asset/Liability Management	14,383	-	-	-	-	14,383
Other	110	-	-	-	-	110
Total	**71,419**	**22,157**	**4,500**	**13,151**	**4,506**	**49,262**
2016						
Retail	22,110	7,750	12	6,158	1,580	14,360
Small and Medium Enterprises	15,137	7,605	489	5,390	1,726	7,532
Local Large Corporates	3,434	2,207	1,468	397	342	1,227
Public sector	10,309	3,533	3,245	139	149	6,776
Group Large Corporates	2,577	107	54	18	35	2,470
Commercial Real Estate	1,530	812	-	537	275	718
Group Market Trading	2,620	559	-	-	559	2,061
Group Market Financial Institutions	575	15	-	9	6	560
Asset/Liability Management	12,447	79	-	-	79	12,368
Other	99	-	-	-	-	99
Total	**70,838**	**22,667**	**5,268**	**12,648**	**4,751**	**48,171**

34.4) Credit risk (continued)

Credit risk exposure by business segment and collateral

						BANK
in HRK million	Credit risk exposure	Collateral total	Guarantees	Real estate	Other	Credit risk exposure net of collateral
2017						
Retail	17,573	6,544	22	5,619	903	11,029
Small and Medium Enterprises	13,386	6,429	565	5,009	855	6,957
Local Large Corporates	3,543	2,197	1,448	476	273	1,346
Public sector	7,595	2,377	2,277	61	39	5,218
Group Large Corporates	1,028	92	30	62	-	936
Commercial Real Estate	1,606	782	-	752	30	824
Group Market Trading	1,430	859	-	-	859	571
Group Market Financial Institutions	503	35	-	14	21	468
Asset/Liability Management	13,314	-	-	-	-	13,314
Other	111	-	-	-	-	111
Total	**60,089**	**19,315**	**4,342**	**11,993**	**2,980**	**40,774**
2016						
Retail	16,964	6,790	12	5,590	1,188	10,174
Small and Medium Enterprises	12,259	6,330	489	4,794	1,047	5,929
Local Large Corporates	3,054	2,143	1,468	397	278	911
Public sector	9,523	3,304	3,127	128	49	6,219
Group Large Corporates	966	72	54	18	-	894
Commercial Real Estate	1,501	809	-	537	272	692
Group Market Trading	2,892	559	-	-	559	2,333
Group Market Financial Institutions	567	9	-	9	-	558
Asset/Liability Management	11,452	80	-	-	80	11,372
Other	97	-	-	-	-	97
Total	**59,275**	**20,096**	**5,150**	**11,473**	**3,473**	**39,179**

34.4) Credit risk (continued)

Credit risk exposure by financial instrument and collateral

GROUP

in HRK million	Credit risk exposure	Collateral total	Collateralised by: Guarantees	Collateralised by: Real estate	Collateralised by: Other	Credit risk exposure net of collateral	Neither past due nor impaired	Past due but not impaired	Impaired
2017									
Other demand deposits	413	-	-	-	-	413	38	375	-
Loans and advances to credit institutions	5,235	106	-	-	106	5,129	5,187	48	-
Loans and advances to customers	47,432	20,597	4,067	12,433	4,097	26,835	38,310	3,371	5,751
Held to maturity	1,886	-	-	-	-	1,886	1,785	101	-
Trading assets	195	-	-	-	-	195	195	-	-
At fair value through profit or loss	-	-	-	-	-	-	-	-	-
Available for sale	7,756	-	-	-	-	7,756	7,756	-	-
Positive fair value of derivative financial instruments	52	-	-	-	-	52	52	-	-
Contingent credit liabilities	8,450	1,454	433	718	303	6,996	8,214	177	59
Total	**71,419**	**22,157**	**4,500**	**13,151**	**4,506**	**49,262**	**61,537**	**4,072**	**5,810**
2016									
Other demand deposits	548	-	-	-	-	548	55	493	-
Loans and advances to credit institutions	5,332	72	-	-	72	5,260	5,302	30	-
Loans and advances to customers	47,511	20,892	4,745	11,901	4,246	26,619	39,040	3,335	5,136
Held to maturity	1,661	-	-	-	-	1,661	1,656	5	-
Trading assets	-	-	-	-	-	-	-	-	-
At fair value through profit or loss	-	-	-	-	-	-	-	-	-
Available for sale	7,566	-	-	-	-	7,566	7,566	-	-
Positive fair value of derivative financial instruments	73	-	-	-	-	73	70	3	-
Contingent credit liabilities	8,147	1,703	523	747	433	6,444	7,884	172	91
Total	**70,838**	**22,667**	**5,268**	**12,648**	**4,751**	**48,171**	**61,573**	**4,038**	**5,227**

34.4) Credit risk (continued)

Credit risk exposure by financial instrument and collateral (continued)

BANK									
			Collateralised by						
in HRK million	Credit risk exposure	Collateral total	Guarantees	Real estate	Other	Credit risk exposure net of collateral	Neither past due nor impaired	Past due but not impaired	Impaired
2017									
Other demand deposits	283	-	-	-	-	283	18	265	-
Loans and advances to credit institutions	5,134	104	-	-	104	5,030	5,087	47	-
Loans and advances to customers	39,626	17,860	3,910	11,353	2,597	21,766	33,529	1,927	4,170
Held to maturity	1,396	-	-	-	-	1,396	1,295	101	-
Trading assets	195	-	-	-	-	195	195	-	-
At fair value through profit or loss	-	-	-	-	-	-	-	-	-
Available for sale	7,352	-	-	-	-	7,352	7,352	-	-
Positive fair value of derivative financial instruments	55	-	-	-	-	55	55	-	-
Contingent credit liabilities	6,048	1,351	432	640	279	4,697	5,865	147	36
Total	**60,089**	**19,315**	**4,342**	**11,993**	**2,980**	**40,774**	**53,396**	**2,487**	**4,206**
2016									
Other demand deposits	450	-	-	-	-	450	23	427	-
Loans and advances to credit institutions	5,322	70	-	-	70	5,252	5,292	30	-
Loans and advances to customers	39,390	18,515	4,627	10,862	3,026	20,875	32,891	2,083	4,416
Held to maturity	1,142	-	-	-	-	1,142	1,137	5	-
Trading assets	-	-	-	-	-	-	-	-	-
At fair value through profit or loss	-	-	-	-	-	-	-	-	-
Available for sale	7,131	-	-	-	-	7,131	7,131	-	-
Positive fair value of derivative financial instruments	76	-	-	-	-	76	73	3	-
Contingent credit liabilities	5,764	1,511	523	611	377	4,253	5,583	123	58
Total	**59,275**	**20,096**	**5,150**	**11,473**	**3,473**	**39,179**	**52,130**	**2,671**	**4,474**

34.4) Credit risk (continued)

The following tables show the credit risk exposure that was past due but for which specific allowances had not been established as at 31 December 2017 and 31 December 2016 respectively.

Credit risk exposure past due and not covered by specific allowances by financial instrument and collateralization

												GROUP
	Credit risk exposure past due						Thereof collateralised					
in HRK million	Total	Thereof 1-30 days past due	Thereof 31-60 days past due	Thereof 61-90 days past due	Thereof 91-180 days past due	Thereof more than 180 days past due	Total	Thereof 1-30 days past due	Thereof 31-60 days past due	Thereof 61-90 days past due	Thereof 91-180 days past due	Thereof more than 180 days past due
2017												
Other demand deposits	375	372	3	-	-	-	-	-	-	-	-	-
Loans and advances to credit institutions	48	44	3	-	1	-	-	-	-	-	-	-
Loans and advances to customers	3,371	2,707	477	176	7	4	1,511	1,166	208	135	2	-
Held to maturity	101	-	101	-	-	-	-	-	-	-	-	-
Trading assets	-	-	-	-	-	-	-	-	-	-	-	-
At fair value through profit or loss	-	-	-	-	-	-	-	-	-	-	-	-
Available for sale	-	-	-	-	-	-	-	-	-	-	-	-
Positive fair value of derivative financial instruments	-	-	-	-	-	-	-	-	-	-	-	-
Contingent credit liabilities	177	160	16	-	-	1	12	11	1	-	-	-
Total	**4,072**	**3,283**	**600**	**176**	**8**	**5**	**1,523**	**1,177**	**209**	**135**	**2**	**-**
2016												
Other demand deposits	493	493	-	-	-	-	-	-	-	-	-	-
Loans and advances to credit institutions	30	30	-	-	-	-	-	-	-	-	-	-
Loans and advances to customers	3,335	2,709	518	95	11	2	1,555	1,224	264	61	4	2
Held to maturity	5	-	-	-	-	5	-	-	-	-	-	-
Trading assets	-	-	-	-	-	-	-	-	-	-	-	-
At fair value through profit or loss	-	-	-	-	-	-	-	-	-	-	-	-
Available for sale	-	-	-	-	-	-	-	-	-	-	-	-
Positive fair value of derivative financial instruments	3	3	-	-	-	-	-	-	-	-	-	-
Contingent credit liabilities	172	131	41	-	-	-	22	8	14	-	-	-
Total	**4,038**	**3,366**	**559**	**95**	**11**	**7**	**1,577**	**1,232**	**278**	**61**	**4**	**2**

34.4) Credit risk (continued)

Credit risk exposure past due and not covered by specific allowances by financial instrument and collateralization (continued)

BANK

in HRK million	Credit risk exposure past due Total	Thereof 1-30 days past due	Thereof 31-60 days past due	Thereof 61-90 days past due	Thereof 91-180 days past due	Thereof more than 180 days past due	Thereof collateralised Total	Thereof 1-30 days past due	Thereof 31-60 days past due	Thereof 61-90 days past due	Thereof 91-180 days past due	Thereof more than 180 days past due
2017												
Other demand deposits	265	262	3	-	-	-	-	-	-	-	-	-
Loans and advances to credit institutions	47	43	3	-	1	-	-	-	-	-	-	-
Loans and advances to customers	1,927	1,513	261	143	6	4	1,028	752	148	126	2	-
Held to maturity	101	-	101	-	-	-	-	-	-	-	-	-
Trading assets	-	-	-	-	-	-	-	-	-	-	-	-
At fair value through profit or loss	-	-	-	-	-	-	-	-	-	-	-	-
Available for sale	-	-	-	-	-	-	-	-	-	-	-	-
Positive fair value of derivative financial instruments	-	-	-	-	-	-	-	-	-	-	-	-
Contingent credit liabilities	147	130	16	-	-	1	11	11	-	-	-	-
Total	**2,487**	**1,948**	**384**	**143**	**7**	**5**	**1,039**	**763**	**148**	**126**	**2**	**-**
2016												
Other demand deposits	427	427	-	-	-	-	-	-	-	-	-	-
Loans and advances to credit institutions	30	30	-	-	-	-	-	-	-	-	-	-
Loans and advances to customers	2,083	1,752	261	62	8	-	1,087	888	148	49	2	-
Held to maturity	5	-	-	-	-	5	-	-	-	-	-	-
Trading assets	-	-	-	-	-	-	-	-	-	-	-	-
At fair value through profit or loss	-	-	-	-	-	-	-	-	-	-	-	-
Available for sale	-	-	-	-	-	-	-	-	-	-	-	-
Positive fair value of derivative financial instruments	3	3	-	-	-	-	-	-	-	-	-	-
Contingent credit liabilities	123	106	17	-	-	-	8	8	-	-	-	-
Total	**2,671**	**2,318**	**278**	**62**	**8**	**5**	**1,095**	**896**	**148**	**49**	**2**	**-**

34.4) Credit risk (continued)

Loans to and receivables from customers

The following table shows loans to and receivables from customers divided by business segments and currency as at 31 December 2017 and 31 December 2016 respectively.

Loans to and receivables from customers by business segment and currency

						GROUP
in HRK million	EUR	HRK	CHF	USD	Other currencies	Loans to customers
2017						
Retail	9,722	10,821	176	8	-	20,727
Small and Medium Enterprises	9,952	2,439	78	17	37	12,523
Local Large Corporates	2,515	555	-	-	-	3,070
Public sector	6,730	644	7	-	-	7,381
Group Large Corporates	1,352	123	-	35	-	1,510
Commercial Real Estate	1,076	76	207	-	-	1,359
Group Market Trading	340	236	-	184	-	760
Group Market Financial Institutions	40	15	-	-	-	55
Asset/Liability Management	5	-	-	-	-	5
Other	21	14	-	-	7	42
Total	**31,753**	**14,923**	**468**	**244**	**44**	**47,432**
2016						
Retail	10,486	9,192	246	6	-	19,930
Small and Medium Enterprises	8,891	2,279	131	4	43	11,348
Local Large Corporates	2,263	610	-	-	-	2,873
Public sector	8,862	726	15	-	-	9,603
Group Large Corporates	1,728	93	-	37	-	1,858
Commercial Real Estate	978	113	227	-	-	1,318
Group Market Trading	60	136	-	295	-	491
Group Market Financial Institutions	24	18	-	-	-	42
Asset/Liability Management	-	-	-	-	-	-
Other	8	21	-	-	19	48
Total	**33,300**	**13,188**	**619**	**342**	**62**	**47,511**

34.4) Credit risk (continued)

Loans to and receivables from customers by business segment and currency (continued)

						BANK
in HRK million	EUR	HRK	CHF	USD	Other currencies	Loans to customers
2017						
Retail	7,635	8,746	172	8	-	16,561
Small and Medium Enterprises	8,070	2,068	69	14	37	10,258
Local Large Corporates	2,344	487	-	-	-	2,831
Public sector	6,331	617	7	-	-	6,955
Group Large Corporates	373	28	-	35	-	436
Commercial Real Estate	1,064	75	207	-	-	1,346
Group Market Trading	340	403	-	184	-	927
Group Market Financial Institutions	34	13	-	-	-	47
Asset/Liability Management	23	200	-	-	-	223
Other	21	13	-	-	8	42
Total	**26,235**	**12,650**	**455**	**241**	**45**	**39,626**
2016						
Retail	8,645	7,133	242	6	-	16,026
Small and Medium Enterprises	7,287	1,902	123	4	43	9,359
Local Large Corporates	2,041	452	-	-	-	2,493
Public sector	8,274	527	15	-	-	8,816
Group Large Corporates	178	31	-	37	-	246
Commercial Real Estate	965	99	227	-	-	1,291
Group Market Trading	60	405	-	295	-	760
Group Market Financial Institutions	19	16	-	-	-	35
Asset/Liability Management	114	201	-	-	-	315
Other	8	22	-	-	19	49
Total	**27,591**	**10,788**	**607**	**342**	**62**	**39,390**

34.4) Credit risk (continued)

In the following tables, the non-performing loans to and receivables from customers divided by reporting segment are contrasted with allowances for customer loans (specific and collective allowances) and the collateral for non-performing loans (NPL). The NPL ratio, the NPL coverage ratio, and the NPL total coverage ratio are also included. The NPL total coverage ratio specifies the coverage of non-performing loans by specific and collective allowances as well as by collateral for non-performing loans.

Non-performing loans to and receivables from customers by business segment and coverage by loan loss allowances and collateral

										GROUP
in HRK million	Non-performing	Loans to customers	Specific allowances for individually assessed financial assets	Specific allowances for collectively assessed financial assets	Collective allowances for incurred but not reported losses	Risk provisions	NPL ratio	NPL coverage ratio	Collateral for NPL	NPL total coverage ratio
2017										
Retail	1,939	20,727	248	1,057	185	1,490	9%	77%	625	109%
Small and Medium Enterprises	1,556	12,523	873	168	206	1,247	12%	80%	813	132%
Local Large Corporates	381	3,070	264	3	37	304	12%	80%	79	100%
Public sector	6	7,381	-	1	37	38	-	616%	4	689%
Group Large Corporates	1,143	1,510	427	5	6	438	76%	38%	35	41%
Commercial Real Estate	791	1,359	584	3	15	602	58%	76%	390	125%
Group Market Trading	-	760	-	-	1	1	-	621%	-	-
Group Market Financial Institutions	-	55	-	-	2	2	-	-	-	-
Asset/Liability Management	-	5	-	-	-	-	-	-	-	-
Other	14	42	8	4	-	12	33%	83%	-	83%
Total	**5,830**	**47,432**	**2,404**	**1,241**	**489**	**4,134**	**12%**	**71%**	**1,946**	**104%**
2016										
Retail	2,233	19,930	265	1,147	183	1,595	11%	71%	743	105%
Small and Medium Enterprises	1,922	11,348	993	189	178	1,360	17%	71%	965	121%
Local Large Corporates	178	2,873	87	-	43	130	6%	74%	55	105%
Public sector	43	9,603	37	-	32	69	-	160%	6	174%
Group Large Corporates	2	1,858	-	-	25	25	-	1,163%	-	1,163%
Commercial Real Estate	932	1,318	641	3	14	658	71%	70%	489	123%
Group Market Trading	-	491	-	-	2	2	-	662%	-	-
Group Market Financial Institutions	-	42	-	-	-	-	-	-	-	
Asset/Liability Management	-	-	-	-	-	-	-	-	-	
Other	14	48	11	3	2	16	32%	102%	-	102%
Total	**5,324**	**47,511**	**2,034**	**1,342**	**479**	**3,855**	**11%**	**72%**	**2,258**	**115%**

34.4) Credit risk (continued)

Non-performing loans to and receivables from customers by business segment and coverage by loan loss allowances and collateral (continued)

										BANK
in HRK million	Non-performing	Loans to customers	Specific allowances for individually assessed financial assets	Specific allowances for collectively assessed financial assets	Collective allowances for incurred but not reported losses	Risk provisions	NPL ratio	NPL coverage ratio	Collateral for NPL	NPL total coverage ratio
2017										
Retail	1,560	16,561	243	761	98	1,102	9%	71%	587	108%
Small and Medium Enterprises	1,374	10,258	820	81	177	1,078	13%	78%	768	134%
Local Large Corporates	332	2,831	241	1	35	277	12%	84%	72	105%
Public sector	5	6,955	-	-	35	35	-	650%	4	719%
Group Large Corporates	184	436	12	-	6	18	42%	10%	27	24%
Commercial Real Estate	779	1,346	573	2	14	589	58%	76%	390	126%
Group Market Trading	-	927	-	-	1	1	-	621%	-	-
Group Market Financial Institutions	-	47	-	-	2	2	-	-	-	-
Asset/Liability Management	-	223	-	-	-	-	-	-	-	-
Other	12	42	8	4	-	12	28%	91%	-	91%
Total	**4,246**	**39,626**	**1,897**	**849**	**368**	**3,114**	**11%**	**73%**	**1,848**	**117%**
2016										
Retail	1,741	16,026	258	778	101	1,137	11%	65%	693	105%
Small and Medium Enterprises	1,710	9,359	929	71	155	1,155	18%	68%	907	121%
Local Large Corporates	142	2,493	69	-	40	109	6%	76%	51	112%
Public sector	42	8,816	37	-	30	67	-	163%	4	173%
Group Large Corporates	2	246	-	-	4	4	1%	172%	-	172%
Commercial Real Estate	921	1,291	631	1	13	645	71%	70%	489	123%
Group Market Trading	-	760	-	-	2	2	-	666%	-	-
Group Market Financial Institutions	-	35	-	-	-	-	-	-	-	-
Asset/Liability Management	-	315	-	-	3	3	-	-	-	-
Other	14	49	10	3	1	14	31%	102%	-	102%
Total	**4,572**	**39,390**	**1,934**	**853**	**349**	**3,136**	**12%**	**69%**	**2,144**	**115%**

34.5) Market risk

Definition and overview

Market risk is the risk of loss that may arise due to adverse changes in market prices and to the parameters derived therefrom. Market risk is divided into interest rate risk, currency risk and equity risk. This concerns both trading and banking book positions.

Methods and instruments employed

Potential losses that may arise from market movements are assessed using the Value at Risk (VaR). The calculation is done according to the method of historic simulation with a one-sided confidence level of 99%, a holding period of one day and a simulation period of two years. The VaR describes what level of losses may be expected as a maximum at a defined probability – the confidence level – within a certain holding period of the positions under normal market conditions.

Back-testing is used to constantly monitor the validity of the statistical methods. This process is conducted with a one-day delay to monitor if the model projections regarding losses have actually materialised. At a confidence level of 99%, the actual loss on a single day should exceed the VaR statistically only two to three times a year (1% of around 250 workdays).

This shows one of the limits of the VaR approach: on the one hand, the confidence level is limited to 99%, and on the other hand, the model takes into account only those market scenarios observed in each case within the simulation period of two years, and calculates the VaR for the current position of the Bank on this basis. In order to investigate any extreme market situations beyond this, stress tests are conducted at the Bank. These events include mainly market movements of low probability.

The stress tests are carried out according to several methods: stressed VaR is derived from the normal VaR calculation. But instead of simulating only over the two most recent years, an analysis of a much longer period is carried out in order to identify a one-year period that constitutes a relevant period of stress for the current portfolio mix. According to the legal framework, that one-year period is used to calculate a VaR with a 99% confidence level. This enables the Bank on the one hand to hold sufficient own funds available for the trading book also in periods of elevated market volatility, while on the other hand also enabling it to incorporate these resulting effects in the management of trading positions.

Standard scenarios are calculated in which the individual market factors are exposed to extreme movements. Such scenarios are calculated at the Bank for interest rates, stock prices, exchange rates and volatilities. Historic scenarios are a modification of the concept of standard scenarios. In this case, risk factor movements after certain events such as 9/11 or the Lehman bankruptcy form the basis of the stress calculation. In order to calculate historical probabilistic scenarios, the most significant risk factors for the current portfolio are determined and their most adverse movement during the last years is applied. For the probabilistic scenarios shifts of important market factors are determined for various quantiles of their distributions, and these values are then used to calculate stress results. These analysis are made available to the Management Board and the Supervisory Board within the scope of the monthly market risk reports.

For the local capital requirements the Bank is using the standardized model.

Methods and instruments of risk mitigation

The Bank manages market risks in the trading book by setting several layers of limits. The overall limit on the basis of VaR for the trading book is decided by the Board while taking into account the risk-bearing capacity and projected earnings. A further breakdown is done by the Management Board and Market Risk Committee on the basis of a proposal from the Market Risk Management unit.

34.5) Market risk (continued)

All market risk activities of the trading book are assigned risk limits that are statistically consistent in their entirety with the VaR overall limit. The VaR limit is assigned in a top-down procedure to the individual trading units. This is done up to the level of the individual trading groups or departments. Additionally, in a bottom-up procedure, sensitivity limits are assigned to even smaller units all the way down to the individual traders. These are then aggregated upwards and applied as a second limit layer to the VaR limits. The consistency between the two limit approaches is verified regularly.

Limit compliance is verified at two levels: by the Market risk management unit in the Bank and by Trading Book Risk Group. The monitoring of the limits is done within the course of the trading day based on sensitivities. This can also be carried out by individual traders or chief traders on an ad hoc basis.
The VaR is calculated daily and is available and reported to the individual trading units as well as to the superior management levels all the way up to the Management Board.

Certain banking book positions are subjected to a daily VaR analysis. The total VaR is determined in the same manner as the VaR for the trading book.

Analysis of market risk

Value at Risk of banking book and trading book
The following tables show the VaR amounts as at 31 December 2017 and 31 December 2016 respectively at the 99% confidence level using equally weighted market data and with a holding period of one day:

Value at Risk of banking book and trading book 2017

in HRK thousands	Total	Interest	Currency	Shares	Commodity	Volatility
Banking book	17,409	17,595	615	2,221	-	-
Fixed Income AFS	11,856	11,873	49	-	-	-
Fixed Income Investment	3,466	3,468	-	-	-	-
Trading book	839	841	15	-	-	-

Value at Risk of banking book and trading book 2016

n HRK thousands	Total	Interest	Currency	Shares	Commodity	Volatility
Banking book	404	369	35	-	-	-
Fixed Income AFS	7,752	7,735	-	33	-	-
Fixed Income Investment	3,474	3,474	-	-	-	-
Trading book	377	106	376	-	-	-

Interest rate risk of banking book
Interest rate risk is the risk of an adverse change in the fair value of financial instruments caused by a movement in market interest rates. This type of risk arises when mismatches exist between assets and liabilities, including derivatives, in respect of their maturities or of the timing of interest rate adjustments.

In order to identify interest rate risk, all financial instruments, including transactions not recognized on the balance sheet, are grouped into maturity bands based on their remaining terms to maturity or terms to an interest rate adjustment. Positions without a fixed maturity (e.g. demand deposits) are included on the basis of modeled deposit rates that are determined by means of statistical methods and the rules from the CNB, in line with the EBA's guidelines.

The following tables list the open fixed-income positions held by the Bank in currencies that carry an interest rate risk, i.e. for all significant currencies as of 31 December 2017 and 31 December 2016.

34.5) Market risk (continued)

Only the open fixed-income positions that are not allocated to the trading book are presented. Positive values indicate fixed-income risks on the asset side, i.e. a surplus of asset items, negative values represent a surplus on the liability side.

Open fixed-income positions not assigned to the trading book in 2017

in HRK million	1(3) years	3(5) years	5(7) years	7(10) years	Over 10 years
Fixed-interest gap in HRK positions	1,030	1,365	978	120	63
Fixed-interest gap in EUR positions	(209)	186	207	197	222
Fixed-interest gap in CHF positions	-	-	-	-	-
Fixed-interest gap in USD positions	-	-	-	-	-

Open fixed-income positions not assigned to the trading book in 2016

in HRK million	1(3) years	3(5) years	5(7) years	7(10) years	Over 10 years
Fixed-interest gap in HRK positions	1,402	1,581	459	15	(96)
Fixed-interest gap in EUR positions	(133)	523	406	15	101
Fixed-interest gap in CHF positions	(17)	6	6	2	1
Fixed-interest gap in USD positions	48	7	(7)	(1)	-

Exchange rate risk
The Bank is exposed to several types of risks related to exchange rates. These concern risks from open foreign exchange positions and others.
Risk from open currency positions is the risk related to exchange rates that derives from the mismatch between assets and liabilities, or from currency-related financial derivatives. These risks might originate from customer-related operations or proprietary trading and are monitored and managed on a daily basis. Foreign currency exposure is subject to regulatory and internal limits. The internal limits are set by the Management Board and the Market Risk Committee.

The following table shows the largest open exchange rate positions of the Bank per year end 2017 as at 31 December 2017 and 31 December 2016 respectively.

Open exchange rate positions

in HRK thousands	2017	2016
Euro (EUR)	300,339	(1,206)
Bosnia and Herzegovina convertible mark (BAM)	129	(1,619)
Swiss franc (CHF)	(572)	(161)
Swedish krona (SEK)	301	-
Australian dollar (AUD)	326	(86)
Canadian dollar (CAD)	278	467
Norwegian krone (NOK)	998	468
US dollar (USD)	(8,177)	(6,219)

34.6) Liquidity risk

Definition and overview

The liquidity risk in the Bank is defined in line with the principles set out by the Basel Committee on Banking Supervision and the Capital Requirements Regulation (CRR) and the Decision on Liquidity Risk Management by Croatian National bank. Accordingly, a distinction is made between market liquidity risk, which is the risk that the Bank cannot easily offset or close a position at the market price because of inadequate market depth or market disruption, and funding liquidity risk, which is the risk that the Bank will not be able to meet efficiently both expected and unexpected current and future cash flow and collateral needs without affecting either daily operations or the financial condition.

Funding liquidity risk is further divided into insolvency risk and structural liquidity risk. The former is the short-term risk that current or future payment obligations cannot be met in full and on time in an economically justified manner, while structural liquidity risk is the long-term risk of losses due to a change in the Group's own refinancing cost or spread.

The Bank 2017 liquidity strategy was implemented successfully.

The Bank continues its ongoing project activities to improve the framework for liquidity risk reporting. Besides the preparation for the new regulatory reporting requirements, current projects are aimed at continuously improving the internal stress testing methodology and the data quality used in the risk measurement.

Liquidity ratios

With the implementation of the CRR at the beginning of 2014, new liquidity ratios, the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR) have been introduced as ratios relevant for reporting purposes. For the LCR, the European Commission released a Delegated regulation (EU) 2015/61 of 10 October 2014, published in the Official Journal of the European Union on 17 January 2015, specifying details on the ratio and setting a binding minimum requirement for the ratio as of 1 October 2015. Since 30 September 2016 the LCR has to be reported according to the Delegated regulation to the authorities (LCR DA). The LCR represents a ratio of highly liquid assets on the one hand and net cash outflows over a 30 day time horizon on the other. The minimum ratio has been set at 60% for 2015 (from 1 October), 70% for 2016, 80% for 2017 and 100% from 2018. The NSFR remains for the time being a reporting requirement only, with a binding minimum requirement potentially introduced from 2018. The NSFR represents a ratio of available stable funding on the one hand and required stable funding on the other, within a 12 month time horizon. Both, LCR DA and NSFR have been implemented within the Bank.

Methods and instruments employed

The short-term insolvency risk is monitored by calculating the survival period in total and for each currency. This analysis determines the maximum period during which the entity can survive a set of defined scenarios, including a severe combined market and idiosyncratic crisis while relying on its pool of liquid assets. The monitored worst-case scenario simulates very limited money market and capital market access and at the same time significant client deposit outflow. Furthermore, the simulation assumes increased drawdown on guarantees and loan commitments dependent on the type of the customer, as well as the potential outflows from collateralised derivative transactions estimating the effect from collateral outflow in the case of adverse market movements. To reflect the reputational risk from callable own issues, the principal outflows from these liabilities are modelled to the next call date in all stress scenarios.

As far back as 2011, the Bank's risk control has been based on the new Basel III liquidity risk measures, especially Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR). Internally, the ratios are monitored and from 2015 internal targets are set for them. And from 1 January 2017, Liquidity Coverage Ratio (LCR) is monitored daily. At the end of 2017, both LCR and NSFR for the Bank were above 100%.

34.6) Liquidity risk (continued)

Additionally, the traditional liquidity gaps (depicting the going concern maturity mismatches) of the Bank are reported and monitored regularly. Funding concentration risk is continuously analysed in respect to counterparties. The Bank's fund transfer pricing (FTP) system has also proven to be an efficient tool for structural liquidity risk management.

Methods and instruments of risk mitigation

General standards of liquidity risk controlling and management (standards, limits and analysis) have been defined and are continuously reviewed and improved by the Bank.

The short-term liquidity risk is managed by limits resulting from the survival period model and by internal LCR targets. Limit breaches are reported to the Asset Liability Committee (ALCO). Another important instrument for managing the liquidity risk within the Bank is the FTP system. As the process of planning funding needs provides important data for liquidity management, a detailed overview of funding needs is prepared on a quarterly basis for the planning horizon.

The Comprehensive Contingency Plan ensures the necessary coordination of all parties involved in the liquidity management process in case of crisis and is reviewed on a regular basis.

Analysis of liquidity risk

Liquidity coverage ratio

The Bank uses the regulatory liquidity coverage ratio according to the Delegated regulation (EU) 2015/61 (LCR DA) for internal monitoring and steering of the liquidity position as well. In order to keep the LCR DA above both limits, the regulatory limit and the internal limit, the Bank monitors daily its short-term liquidity inflows and outflows as well as its available counterbalancing capacity.

The following table shows the LCR DA as of 31 December 2017 and 31 December 2016:

		BANK
	2017	2016
Liquidity Coverage Ratio (LCR)	185%	202%

Liquidity gap

The long-term liquidity position is managed using liquidity gaps on the basis of expected cash flows. This liquidity position is calculated for each materially relevant currency and based on the assumption of ordinary business activity.

Expected cash flows are broken down by contractual maturities in accordance with the amortization schedule and arranged in maturity ranges.

The following table shows the liquidity gaps as at 31 December 2017 and 31 December 2016:

								BANK
	< 1 month		1(12) months		1(5) years		> 5 years	
in HRK million	2017	2016	2017	2016	2017	2016	2017	2016
Liquidity GAP	1,932	8,251	(4,527)	7,146	(668)	(6,693)	801	(291)

34.6) Liquidity risk (continued)

An excess of assets over liabilities is indicated by a positive value, while an excess of liabilities over assets is indicated by a negative value. The cash inflows from liquid securities, which are accepted as collateral by the central banks to which the Group has access, are shifted to the first time bucket instead of showing them at their contractual maturity.

Counterbalancing capacity

The Bank regularly monitors its counterbalancing capacity, which consists of cash, excess minimum reserve at the central banks as well as unencumbered central bank eligible assets and other liquid securities, including changes from repos, reverse repos and securities lending transactions. These assets can be mobilised in the short term to offset potential cash outflows in a crisis situation. The term structure of the Bank's counterbalancing capacity as of year end 2017 and year end 2016 are shown in the tables below:

Term structure of counterbalancing capacity 2017

in HRK million	< 1 week	1 week(1) month	1(3) months	3(6) months	6(12) months
Cash, excess reserve	2,491	(1,425)	-	-	-
Liquid assets	6,474	(127)	(181)	(685)	(1,191)
Counterbalancing capacity	**8,965**	**(1,552)**	**(181)**	**(685)**	**(1,191)**

Term structure of counterbalancing capacity 2016

in HRK million	< 1 week	1 week(1) month	1(3) months	3(6) months	6(12) months
Cash, excess reserve	2,155	(1,342)	-	-	-
Liquid assets	7,024	(1,571)	(289)	(432)	(1,855)
Counterbalancing capacity	**9,179**	**(2,913)**	**(289)**	**(432)**	**(1,855)**

The figures above show the total amount of potential liquidity available for the Bank in a going concern situation, taking into account the applicable central bank haircuts.

34.6) Liquidity risk (continued)

Contractual Undiscounted Cash Flows from Financial liabilities

Maturities of contractual undiscounted cash flows from financial liabilities as at 31 December 2017 and 31 December 2016 respectively, were as follows:

Undiscounted financial liabilities

2017						GROUP
in HRK million	**Carrying amounts**	**Contractual cash flows**	**< 1 month**	**1-12 months**	**1-5 years**	**> 5 years**
Non-derivative liabilities	**56,632**	**57,519**	**25,007**	**18,179**	**12,285**	**2,048**
Deposits by banks	9,744	10,035	1,217	3,056	5,381	381
Customer deposits	45,231	45,519	23,786	15,123	5,243	1,367
Debt securities in issue	376	447	-	-	447	-
Subordinated liabilities	1,281	1,518	4	-	1,214	300
Derivative liabilities	**52**	**52**	**16**	**34**	**1**	**1**
Contingent liabilities	**8,450**	**8,450**	**8,450**	**-**	**-**	**-**
Financial guarantees	3,012	3,012	3,012	-	-	-
Irrevocable commitments	5,438	5,438	5,438	-	-	-
Total	**65,134**	**66,021**	**33,473**	**18,213**	**12,286**	**2,049**

2016						GROUP
in HRK million	**Carrying amounts**	**Contractual cash flows**	**< 1 month**	**1-12 months**	**1-5 years**	**> 5 years**
Non-derivative liabilities	**56,687**	**58,036**	**21,019**	**22,215**	**10,736**	**4,066**
Deposits by banks	10,590	11,276	423	4,192	4,414	2,247
Customer deposits	44,111	44,605	20,572	17,066	5,673	1,294
Debt securities in issue	302	318	2	316	-	-
Subordinated liabilities	1,684	1,837	22	641	649	525
Derivative liabilities	**77**	**77**	**56**	**16**	**3**	**2**
Contingent liabilities	**8,147**	**8,147**	**8,147**	**-**	**-**	**-**
Financial guarantees	2,730	2,730	2,730	-	-	-
Irrevocable commitments	5,417	5,417	5,417	-	-	-
Total	**64,911**	**66,260**	**29,222**	**22,231**	**10,739**	**4,068**

34.6) Liquidity risk (continued)

2017						BANK
in HRK million	**Carrying amounts**	**Contractual cash flows**	**< 1 month**	**1-12 months**	**1-5 years**	**> 5 years**
Non-derivative liabilities	**49,235**	**49,985**	**23,368**	**14,529**	**10,350**	**1,738**
Deposits by banks	5,113	5,282	1,266	156	3,726	134
Customer deposits	42,465	42,738	22,098	14,373	4,963	1,304
Debt securities in issue	376	447	-	-	447	-
Subordinated liabilities	1,281	1,518	4	-	1,214	300
Derivative liabilities	**52**	**52**	**16**	**34**	**1**	**1**
Contingent liabilities	**6,048**	**6,048**	**6,048**	**-**	**-**	**-**
Financial guarantees	2,608	2,608	2,608	-	-	-
Irrevocable commitments	3,440	3,440	3,440	-	-	-
Total	**55,335**	**56,085**	**29,432**	**14,563**	**10,351**	**1,739**

2016						BANK
in HRK million	**Carrying amounts**	**Contractual cash flows**	**< 1 month**	**1-12 months**	**1-5 years**	**> 5 years**
Non-derivative liabilities	**48,720**	**49,810**	**19,472**	**17,732**	**9,400**	**3,206**
Deposits by banks	5,279	5,725	321	459	3,478	1,467
Customer deposits	41,455	41,930	19,127	16,316	5,273	1,214
Debt securities in issue	302	318	2	316	-	-
Subordinated liabilities	1,684	1,837	22	641	649	525
Derivative liabilities	**76**	**76**	**55**	**16**	**3**	**2**
Contingent liabilities	**5,764**	**5,764**	**5,764**	**-**	**-**	**-**
Financial guarantees	2,262	2,262	2,262	-	-	-
Irrevocable commitments	3,502	3,502	3,502	-	-	-
Total	**54,560**	**55,650**	**25,291**	**17,748**	**9,403**	**3,208**

34.7) Operational risk

Definition and overview

The Bank defines operational risk as the risk of loss resulting from inadequacy or failure of internal processes, people or systems, or from external events, including legal risks. Both quantitative and qualitative methods are used to identify operational risk. Consistent with sound practices, the responsibility for managing operational risk is with the line management.

Operational Risk Framework and Standards

For managing operational risk the Bank applies following elements: identification of operational risk, assessment, mitigation and acceptance of operational risk, quantification of operational risk and monitoring, controlling and reporting of operational risk.
When determining the operational risk exposure for the Bank, qualitative and quantitative tools have been applied. The quantitative analysis of operational risk includes collection of internal and external loss event data where particular emphasis is put on the data classification and quality necessary for quantifying operational risk. Furthermore, the Bank uses operational risk loss data from the world's leading data consortium, Operational Risk Exchange Association (ORX) through membership of Erste Group in the consortium.
For the qualitative analysis a methodology for risk and control self-assessments (RCSA) has to be performed. RCSA have to be carried out on a regular basis and corrective measures have to be implemented by relevant organizational unit for high risk points where internal controls are not adequate or efficient.
An objective in the identification of operational risk is to establish key risk indicators which are measured and give a timely indication regarding changes in the operational risk profile.
In order to involve management of the Bank in the change management process it is ensured that there is an approval process that fully assesses operational risk for all new products, activities, processes and systems. This process has to also cover recent significant corporate events (such as mergers, acquisitions, disposals and restructuring) or new markets.
In addition to the loss data collection, scenario analysis are implemented to analyse possible future losses which the Bank has not yet experienced.

The Bank locally applies The Standardised Approach – TSA for operational risk capital requirements calculation.

The Bank is included in the insurance program for operational risk on the Erste Group level (Captive Insurance) and the insurance is recognized as mitigation measure for capital requirements using Advanced Measurement Approach.

The Bank's Management Board is informed on operational risk through Quarterly Report on Operational Risk and Local Operational Conduct Committee is held at minimum on a quarterly basis.

Operational Risk Events

Operational risk events are categorized within seven event types according to the Credit Institutions Act;

Internal theft and fraud:
Losses due to acts of a type intended to defraud, misappropriate property or circumvent regulations, the law or company policy, excluding diversity/discrimination events, which involves at least one internal party.

34.7) Operational risk (continued)

External theft and fraud:
Losses due to acts of a type intended to defraud, misappropriate property or circumvent the law, by a third party.

Employment practices and workplace safety:
Losses arising from acts inconsistent with employment, health or safety laws or agreements, from payment of personal injury claims, or from diversity/discrimination events.

Clients, products and business practices:
Losses arising from an unintentional or negligent failure to meet a professional obligation to specific clients (including fiduciary and suitability requirements), or from the nature or design of a product.

Damage to physical assets:
Losses arising from loss or damage to physical assets from natural disaster or other events.

Business disruption and (IT) system failures:
Losses arising from disruption of business or system failures.

Execution, delivery and process management:
Losses from failed transaction processing or process management, from relations with trade counterparties and vendors.

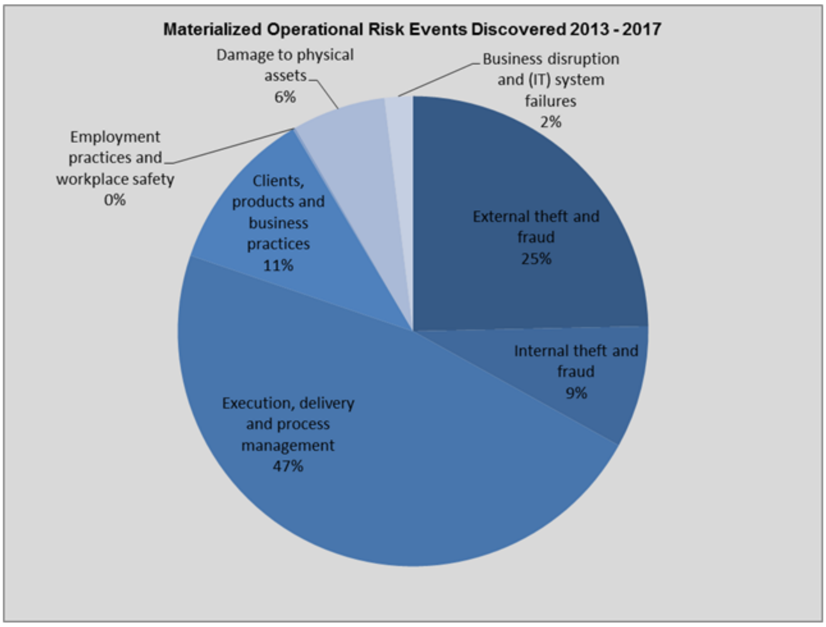


Chart 15: Materialized Operational Risk Events Discovered 2013-2017

35. Fair value of assets and liabilities

Fair values of financial instruments

All financial instruments are measured at fair value on recurring basis.

Financial instruments measured at fair value in the statement of financial position

The measurement of fair value at the Group is based primarily on external sources of data (stock market prices or broker quotes in highly liquid market segments). Financial instruments for which fair value is determined on the basis of quoted market prices are mainly listed securities and derivatives as well as liquid Over-The-Counter (OTC) bonds.

Description of the valuation models and inputs

The Group uses only valuation models which have been tested internally and for which the valuation parameters (such as interest rates, exchange rates, volatilities and credit spreads) have been determined independently. In case of the negative interest environment the Group uses models which are able to deal sufficiently with the presented market conditions. Consequently, such negative interest rates do not restrict the valuation models.

Securities

For plain vanilla (fixed and floating) debt securities the fair value is calculated by discounting the future cash-flows using a discounting curve depending on the interest rate for the respective issuance currency and a spread adjustment. The spread adjustment is usually derived from the credit spread curve of the issuer. If no issuer curve is available the spread is derived from a proxy instrument and adjusted for differences in the risk profile of the instruments. If no close proxy is available, the spread adjustment is estimated using other information, including estimation of the credit spread based on internal ratings and PDs or management judgment. For more complex debt securities (e.g. including option like features such as callable, cap/floor, index-linked) the fair value is determined using combinations of discounted cash-flow models and more sophisticated modelling techniques including methods described for OTC-derivatives.

OTC-derivative financial instruments

Derivative instruments traded in liquid markets are valued by standard valuation models.

The Group values derivatives at mid-market levels. To reflect the potential bid-ask-spread of the relevant positions an adjustment based on market liquidity is performed. The adjustment parameters depend on product type, currency, maturity and notional size. Parameters are reviewed on a regular basis or in case of significant market moves. Netting is not applied when determining the bid-ask-spread adjustments.

Credit value adjustments (CVA) for counterparty risk and debt value adjustments (DVA) for the own default credit risk are applied to OTC derivatives. For the CVA the adjustment is driven by the expected positive exposure of all derivatives and the credit quality of the counterparty. DVA is driven by the expected negative exposure and the Bank's credit quality. The bank has implemented an approach, where the modelling of the expected exposure is based on option replication strategies. This modelling approach is considered for the most relevant portfolios and products. The methodology for the remaining entities and products is determined by market value plus add-on considerations. The probability of default of counterparties which are not traded in an active market is determined from internal PDs mapped to a basket of liquid titles being present in the central European market. Thereby market based valuation concepts have been incorporated. Counterparties with liquid bond markets are valued by the respective single-name market based PD derived from the prices. The Bank's probability of default has been derived from the buy-back levels of the Bank's issuances.

35. Fair value of assets and liabilities (continued)

According to the described methodology the cumulative CVA-adjustments amounts to HRK 601 thousands as at 31 December 2017 (2016: HRK 1,880 thousands) and the total DVA-adjustment amounts to HRK 312 thousands as at 31 December 2017 (2016: HRK 737 thousands).

Validation and control

The responsibility for valuation of a position measured at fair value is independent from trading units. Additionally the Group has implemented an independent validation function in order to ensure separation between units responsible for model development, fair value determination and validation. The target of independent model validation is to evaluate model risks arising from the models theoretical foundation, the appropriateness of input data (market data) and model calibration.

Fair value hierarchy

Financial assets and financial liabilities measured at fair value are categorized under the three levels of the IFRS fair value hierarchy.

Level 1 of the fair value hierarchy

The fair value of financial instruments assigned to level 1 of the fair value hierarchy is determined based on quoted prices in active markets for identical financial assets and liabilities. More particular, the evaluated fair value can qualify as a level 1 if transactions occur with sufficient frequency, volume and pricing consistency on an ongoing basis.

These include shares, government bonds as well as other bonds and funds, which are traded in highly liquid and active markets.

Level 2 of the fair value hierarchy

In case a market quote is used for valuation but due to restricted liquidity the market does not qualify as active (derived from available market liquidity indicators) the instrument is classified as level 2. If no market prices are available the fair value is measured by using valuation models which are based on observable market data. If all the significant inputs in the valuation model are observable the instrument is classified as level 2 of the fair value hierarchy. For level 2 valuations typically yield curves, credit spreads and implied volatilities are used as observable market parameters.

These include OTC derivatives, less liquid shares, bonds, funds and own issues.

Level 3 of the fair value hierarchy

In some cases, the fair value can be determined neither on the basis of sufficiently frequent quoted market prices nor of valuation models that rely entirely on observable market data. In these cases individual valuation parameters not observable in the market are estimated on the basis of reasonable assumptions. If any unobservable input in the valuation model is significant or the price quote used is updated infrequently the instrument is classified as level 3 of the fair value hierarchy. For level 3 valuations besides observable parameters typically credit spreads derived from internally calculated historical probability of default (PD) and loss given default (LGD) measures are used as unobservable parameters.

These include shares and funds not quoted, illiquid bonds.

35. Fair value of assets and liabilities (continued)

A reclassification from level 1 into level 2 or level 3 as well as vice versa will be performed if the financial instruments no longer meet the criteria described above for the respective level.

The table below shows the classification of financial instruments carried at fair value with respect to levels of fair value hierarchy.

GROUP

	Quoted market prices in active markets Level 1		Marked to model based on observable market data Level 2		Marked to model based on non-observable inputs Level 3		Total	
in HRK million	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**
ASSETS								
Financial assets - held for trading	-	195	73	52	-	-	73	247
Derivatives	-	-	73	52	-	-	73	52
Other trading assets	-	195	-	-	-	-	-	195
Financial assets - available for sale	7,280	6,901	157	797	374	301	7,811	7,999
Total assets	**7,280**	**7,096**	**230**	**849**	**374**	**301**	**7,884**	**8,246**
LIABILITIES								
Financial liabilities held for trading	-	-	77	52	-	-	77	52
Derivatives	-	-	77	52	-	-	77	52
Other trading liabilities	-	-	-	-	-	-	-	-
Total liabilities	**-**	**-**	**77**	**52**	**-**	**-**	**77**	**52**

The allocation of positions to levels and any changes between the levels are reflected at the end of the reporting period.

BANK

	Quoted market prices in active markets Level 1		Marked to model based on observable market data Level 2		Marked to model based on non-observable inputs Level 3		Total	
in HRK million	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**
ASSETS								
Financial assets - held for trading	-	195	76	55	-	-	76	250
Derivatives	-	-	76	55	-	-	76	55
Other trading assets	-	195	-	-	-	-	-	195
Financial assets - available for sale	6,959	6,471	20	797	254	181	7,233	7,449
Total assets	**6,959**	**6,666**	**96**	**852**	**254**	**181**	**7,309**	**7,699**
LIABILITIES								
Financial liabilities held for trading	-	-	76	52	-	-	76	52
Derivatives	-	-	76	52	-	-	76	52
Other trading liabilities	-	-	-	-	-	-	-	-
Total liabilities	**-**	**-**	**76**	**52**	**-**	**-**	**76**	**52**

35. Fair value of assets and liabilities (continued)

Valuation process for financial instruments categorised as Level 3

The valuation of financial instruments categorised as level 3 involves one or more significant inputs that are not directly observable on the market. Additional price verification steps need to be done. These may include reviewing relevant historical data and benchmarking to similar transactions, among others. This involves estimation and expert judgment.

Transfer of Level 1 and Level 2

These tables show the transfer of Level 1 and Level 2 of financial instruments measured at fair value in the statement of financial position.

				GROUP
		2016		2017
In HRK million	**Level 1**	**Level 2**	**Level 1**	**Level 2**
Securities				
Net transfer from Level 1	-	138	-	-
Net transfer from Level 2	(138)	-	-	-
Net transfer from Level 3	(95)	(86)	-	46
Purchases/sales/expiries	369	(155)	(314)	731
Total year-to-date change	**136**	**(103)**	**(314)**	**777**

				BANK
		2016		2017
In HRK million	**Level 1**	**Level 2**	**Level 1**	**Level 2**
Securities				
Net transfer from Level 1	-	-	-	-
Net transfer from Level 2	-	-	-	-
Net transfer from Level 3	(93)	(86)	-	(46)
Purchases/sales/expiries	328	(139)	(315)	731
Total year-to-date change	**235**	**(225)**	**(315)**	**685**

35. Fair value of assets and liabilities (continued)

Movements in Level 3 of financial instruments carried at fair value

The following tables show the development of fair value of financial instruments for which valuation models are based on non-observable inputs:

in HRK million		Purchase / New Issuance	Sales	Gain/loss in other comprehensive income	Transfers out of Level 3	Exchange-rate changes	
							GROUP
	2016						2017
Assets							
Financial assets - available for sale	374	11	(19)	(19)	(45)	(1)	301
Total assets	**374**	**11**	**(19)**	**(19)**	**(45)**	**(1)**	**301**
	2015						2016
Assets							
Financial assets – available for sale	83	189	(79)	-	181		374
Total assets	**83**	**189**	**(79)**	**-**	**181**		**374**

in HRK million		Purchase / New Issuance	Sales	Gain/loss in other comprehensive income	Transfers out of Level 3	Exchange-rate changes	
							BANK
	2016						2017
Assets							
Financial assets – available for sale	254	11	(19)	(20)	(45)	-	181
Total assets	**254**	**11**	**(19)**	**(20)**	**(45)**	**-**	**181**
	2015						2016
Assets							
Financial assets – available for sale	79	74	(79)	-	180		254
Total assets	**79**	**74**	**(79)**	**-**	**180**		**254**

The sale of the shares in VISA Europe to VISA Inc. was effectuated according to plan in the second quarter of 2016. The initial offer of VISA Inc. from November 2015 included a cash payment, VISA Inc preferred shares and a potential Earn-out-payment in the year 2020. In the course of the fair valuation of the VISA shares as of 31 December 2015, all parts of the offer were taken into account. In May 2016 the offer was adjusted, whereas the earn-out-payments were replaced by a future payments 3 years after closing. This adjustment resulted in an additional increase of the fair value via other comprehensive income. The sales price of HRK 79 million comprising cash payment, VISA Inc preferred shares and future payments was considered as a Level 3 sale.

As of 31 December 2016 and 2017, the fair valuation of VISA Inc preferred shares was based on reasonable assumptions and estimations and was consequently classified in Level 3. The shares cannot be sold before a minimum holding period of 12 years and are limited to certain conditions which may restrict the conversion of preferred shares into tradeable VISA Inc shares. Due to these limiting conditions the fair value of the preferred shares was capped based on assumptions compared to free tradeable VISA Inc. class A common shares.

35. Fair value of assets and liabilities (continued)

Unobservable inputs and sensitivity analysis for level 3 measurements

In case the fair value of a financial asset is retrieved from input parameters which are not observable in the market, those parameters can be retrieved from a range of alternative parameters. For the preparation of the Statement of Financial Position the parameters were chosen to reflect the market situation at the reporting date.

The range of unobservable valuation parameters used in level 3 measurements is shown in the following table.

Financial assets	Type of instrument	Fair value	Valuation technique	Significant unobservable inputs	Range of unobservable inputs (weighted average)
31 December 2017					**GROUP**
Financial assets - available for sale	Bonds and commercial papers	104	Discounted cash flow	Credit spread	4.90%-6.09% (5.1%)
31 December 2016					
Financial assets - available for sale	Bonds and commercial papers	287	Discounted cash flow	Credit spread	1.53% – 5.32% (4.12%)
31 December 2017					**BANK**
Financial assets - available for sale	Bonds and commercial papers	89	Discounted cash flow	Credit spread	4.90%-6.09% (5.1%)
31 December 2016					
Financial assets - available for sale	Bonds and commercial papers	173	Discounted cash flow	Credit spread	1.53% – 5.32% (4.12%)

In estimating sensitivity impacts, mainly changes in credit spreads for bonds were considered. The ranges of reasonably possible alternatives of the unobservable inputs were considered in the sensitivity analysis for debt securities range of credit spreads between +100 basis points and - 75 basis points. Effect in other comprehensive income for positive fair value change is HRK 4 million and for negative HRK 3 million.

35. Fair value of assets and liabilities (continued)

Financial instruments not measured at fair value

The following table shows fair values and fair value hierarchy of financial instruments not measured at fair value for the year end 2017 and 2016.

2017					GROUP
in HRK million	**Carrying amount**	**Fair value**	**Quoted market prices in active markets Level 1**	**Marked to model based on observable market data Level 2**	**Marked to model based on non-observable inputs Level 3**
ASSETS					
Cash and cash balances	4,639	4,639			
Financial assets - held to maturity	1,878	1,929	1,642	170	117
Loans to and receivables from credit institutions	5,233	5,235		-	5,235
Loans to and receivables from customers	43,297	42,546		-	42,546
LIABILITIES					
Financial liabilities measured at amortised costs	56,632	57,065	-	376	56,689
Deposits from banks	11,025	11,401		-	11,401
Deposits from customers	44,374	44,340		-	44,340
Debt securities issued	376	376	-	376	-
Other financial liabilities	857	858	-	-	858
FINANCIAL GUARANTEES AND COMMITMENTS					
Financial guarantees	3,012	3,030	-	-	3,030
Irrevocable commitments	5,438	5,506	-	-	5,506

2016					GROUP
in HRK million	**Carrying amount**	**Fair value**	**Quoted market prices in active markets Level 1**	**Marked to model based on observable market data Level 2**	**Marked to model based on non-observable inputs Level 3**
ASSETS					
Cash and cash balances	4,388	4,388			
Financial assets - held to maturity	1,653	1,600	1,402	169	29
Loans to and receivables from credit institutions	5,329	5,332		-	5,332
Loans to and receivables from customers	43,656	43,670		-	43,670
LIABILITIES					
Financial liabilities measured at amortised costs	56,687	57,065	-	622	56,443
Deposits from banks	11,652	12,263		-	12,263
Deposits from customers	43,323	43,094		-	43,094
Debt securities issued	924	924	-	622	302
Other financial liabilities	788	784	-	-	784
FINANCIAL GUARANTEES AND COMMITMENTS					
Financial guarantees	2,730	2,852	-	-	2,852
Irrevocable commitments	5,417	5,504	-	-	5,504

35. Fair value of assets and liabilities (continued)

					BANK
2017	Carrying amount	Fair value	Quoted market prices in active markets Level 1	Marked to model based on observable market data Level 2	Marked to model based on non-observable inputs Level 3
in HRK million					
ASSETS					
Cash and cash balances	4,170	4,170			
Financial assets - held to maturity	1,391	1,441	1,155	170	116
Loans to and receivables from credit institutions	5,132	5,135		-	5,135
Loans to and receivables from customers	36,512	35,878		-	35,878
LIABILITIES					
Financial liabilities measured at amortised costs	49,235	49,507	-	376	49,131
Deposits from banks	6,394	6,613		-	6,613
Deposits from customers	42,307	42,360		-	42,360
Debt securities issued	376	376	-	376	-
Other financial liabilities	158	158	-	-	158
FINANCIAL GUARANTEES AND COMMITMENTS					
Financial guarantees	2,608	2,624	-	-	2,624
Irrevocable commitments	3,440	3,483	-	-	3,483

					BANK
2016	Carrying amount	Fair value	Quoted market prices in active markets Level 1	Marked to model based on observable market data Level 2	Marked to model based on non-observable inputs Level 3
in HRK million					
ASSETS					
Cash and cash balances	3,737	3,737			
Financial assets - held to maturity	1,137	1,085	912	167	6
Loans to and receivables from credit institutions	5,320	5,324		-	5,324
Loans to and receivables from customers	36,254	36,268		-	36,268
LIABILITIES					
Financial liabilities measured at amortised costs	48,720	48,834	-	622	48,212
Deposits from banks	6,341	6,674		-	6,674
Deposits from customers	41,298	41,080		-	41,080
Debt securities issued	924	924	-	622	302
Other financial liabilities	157	156	-	-	156
FINANCIAL GUARANTEES AND COMMITMENTS					
Financial guarantees	2,262	2,363	-	-	2,363
Irrevocable commitments	3,502	3,558	-	-	3,558

35. Fair value of assets and liabilities (continued)

The fair value of loans to and receivables from customers and credit institutions has been calculated by discounting future cash flows while taking into consideration interest and credit spread effects. The interest rate impact is based on the movements of market rates, while credit spread changes are derived from PDs and LGDs used for internal risk calculations. For the calculation of fair value loans and receivables were grouped into homogeneous portfolios based on rating method, rating grade, maturity and the country where they were granted.

The fair values of financial assets held to maturity are either taken directly from the market or they are determined by directly observable input parameters (i.e. yield curves).

The fair values of deposits and other liabilities, measured at amortised cost, are estimated by taking into account the current interest rate environment, as well as the own credit spread. For liabilities without contractual maturities (e.g. demand deposits), the carrying amount represents the minimum of their fair value.

The fair value of issued securities and subordinated liabilities measured at amortized cost is based on market prices or on observable market parameters, if these are available. For issued securities where fair value cannot be retrieved from quoted market prices, fair value is calculated by discounting the future cash flows. The applied discount rate is based on the interest rates at which instruments with comparable characteristics could have been issued at the balance sheet date. Moreover optionality is taken into account when calculating the fair value.

The fair value of off-balance sheet liabilities (i.e. financial guarantees and unused loan commitments) is estimated with the help of regulatory credit conversion factors. The resulting loan equivalents are treated like other on-balance sheet assets.

Fair values of non-financial assets

The following table shows fair values and fair value hierarchy of non-financial instruments at the year end 2017 and 2016:

					GROUP
in HRK million Assets whose Fair Value is disclosed in the notes	Carrying amount	Fair value	Quoted market prices in active markets Level 1	Marked to model based on observable market data Level 2	Marked to model based on non-observable inputs Level 3
2017					
Investment property	53	64	-	-	64
2016					
Investment property	59	64	-	-	64

					BANK
in HRK million Assets whose Fair Value is disclosed in the notes	Carrying amount	Fair value	Quoted market prices in active markets Level 1	Marked to model based on observable market data Level 2	Marked to model based on non-observable inputs Level 3
2017					
Investment property	20	23	-	-	23
2016					
Investment property	36	41	-	-	41

35. Fair value of assets and liabilities (continued)

For non-financial assets owned by the Group the valuations are carried out using the comparative and investment methods. Assessment is made on basis of a comparison and analysis of appropriate comparable investment and rental transactions, together with evidence of demand within the vicinity of the relevant property. The characteristics of such similar transactions are then applied to the asset, taking into account size, location, terms, covenant and other material factors. Such measurements are presented in Level 3 of the fair value hierarchy.

36. Financial instruments per category according to IAS 39

GROUP

in HRK million	As at 31 December 2017								
	Category of financial instruments								
	Loans and receivables	Held to maturity	Held for trading	Design-ated at fair value	Available for sale	Financial liabilities at amortised cost	Other financial assets	Finance lease according to IAS 17	Total
ASSETS									
Cash and cash balances	3,147	-	-	-	-	-	1,492	-	4,639
Loans to and receivables from credit institutions	5,233	-	-	-	-	-	-	-	5,233
Loans to and receivables from customers	41,549	-	-	-	-	-	-	1,748	43,297
Financial assets - held for trading	-	-	247	-	-	-	-	-	247
Financial assets - available for sale	-	-	-	-	8,018	-	-	-	8,018
Financial assets - held to maturity	-	1,878	-	-	-	-	-	-	1,878
Total financial assets	**49,929**	**1,878**	**247**	**-**	**8,018**	**-**	**1,492**	**1,748**	**63,312**
Net gains / losses recognized through profit or loss[1]	(861)	-	46	-	-	-	-	-	(815)
Net gains / losses recognized through OCI	-	-	-	-	(20)	-	-	-	(20)
LIABILITIES									
Financial liabilities - held for trading	-	-	(52)	-	-	-	-	-	(52)
Financial liabilities measured at amortized cost	-	-	-	-	-	(56,632)	-	-	(56,632)
Total financial liabilities	**-**	**-**	**(52)**	**-**	**-**	**(56,632)**			**(56,684)**

GROUP

in HRK million	As at 31 December 2016								
	Category of financial instruments								
	Loans and receivables	Held to maturity	Held for trading	Desig-nated at fair value	Available for sale	Financial liabilities at amortised cost	Other financial assets	Finance lease according to IAS 17	Total
ASSETS									
Cash and cash balances	3,172	-	-	-	-	-	1,216	-	4,388
Loans to and receivables from institutions	5,329	-	-	-	-	-	-	-	5,329
Loans to and receivables from customers	42,105	-	-	-	-	-	-	1,551	43,656
Financial assets - held for trading	-	-	73	-	-	-	-	-	73
Financial assets - available for sale	-	-	-	-	7,832	-	-	-	7,832
Financial assets - held to maturity	-	1,653	-	-	-	-	-	-	1,653
Total financial assets	**50,606**	**1,653**	**73**	**-**	**7,832**	**-**	**1,216**	**1,551**	**62,931**
Net gains / losses recognized through profit or loss[1]	357	7	178	-	65	-	-	-	607
Net gains / losses recognized through OCI	-	-	-	-	43	-	-	-	43
LIABILITIES									
Financial liabilities - held for trading	-	-	(77)	-	-	-	-	-	(77)
Financial liabilities measured at amortized cost	-	-	-	-	-	(56,687)	-	-	(56,687)
Total financial liabilities	**-**	**-**	**(77)**	**-**	**-**	**(56,687)**			**(56,764)**

[1]Including impairments

36. Financial instruments per category according to IAS 39 (continued)

BANK

in HRK million	Loans and receivables	Held to maturity	Trading	Designated at fair value	Available for sale	Financial liabilities at amortised cost	Other financial assets	Finance lease according to IAS 17	Total
	As at 31 December 2017								
	Category of financial instruments								
ASSETS									
Cash and cash balances	2,804	-	-	-	-	-	1,366	-	4,170
Loans to and receivables from credit institutions	5,132	-	-	-	-	-	-	-	5,132
Loans to and receivables from customers	36,512	-	-	-	-	-	-	-	36,512
Financial assets - held for trading	-	-	250	-	-	-	-	-	250
Financial assets - available for sale	-	-	-	-	7,468	-	-	-	7,468
Financial assets - held to maturity	-	1,391	-	-	-	-	-	-	1,391
Total financial assets	**44,448**	**1,391**	**250**	**-**	**7,468**	**-**	**1,366**	**-**	**54,923**
Net gains / losses recognized through profit or loss[1]	(436)	-	45	-	(1)	-	-	-	(392)
Net gains / losses recognized through OCI	-	-	-	-	(21)	-	-	-	(21)
LIABILITIES									
Financial liabilities - held for trading	-	-	(52)	-	-	-	-	-	(52)
Financial liabilities measured at amortized cost	-	-	-	-	-	(49,235)	-	-	(49,235)
Total financial liabilities	**-**	**-**	**(52)**	**-**	**-**	**(49,235)**	**-**	**-**	**(49,287)**

BANK

in HRK million	Loans and receivables	Held to maturity	Trading	Designated at fair value	Available for sale	Financial liabilities at amortised cost	Other financial assets	Finance lease according to IAS 17	Total
	As at 31 December 2016								
	Category of financial instruments								
ASSETS									
Cash and cash balances	2,636	-	-	-	-	-	1,101	-	3,737
Loans to and receivables from credit institutions	5,320	-	-	-	-	-	-	-	5,320
Loans to and receivables from customers	36,254	-	-	-	-	-	-	-	36,254
Financial assets - held for trading	-	-	76	-	-	-	-	-	76
Financial assets - available for sale	-	-	-	-	7,254	-	-	-	7,254
Financial assets - held to maturity	-	1,137	-	-	-	-	-	-	1,137
Total financial assets	**44,210**	**1,137**	**76**	**-**	**7,254**	**-**	**1,101**	**-**	**53,778**
Net gains / losses recognized through profit or loss[1]	359	4	179	-	50	-	-	-	592
Net gains / losses recognized through OCI	-	-	-	-	50	-	-	-	50
LIABILITIES									
Financial liabilities - held for trading	-	-	(76)	-	-	-	-	-	(76)
Financial liabilities measured at amortized cost	-	-	-	-	-	(48,720)	-	-	(48,720)
Total financial liabilities	**-**	**-**	**(76)**	**-**	**-**	**(48,720)**	**-**	**-**	**(48,796)**

[1] Including impairments

37. Audit fees and tax consultancy fees

The following table contains fundamental audit fees and tax fees charged by the auditors in the financial years 2017 and 2016:

	GROUP		BANK	
in HRK million	2016	2017	2016	2017
Audit fees	3	5	2	3
Total	**3**	**5**	**2**	**3**

38. Contingent liabilities

To meet the financial needs of customers, the Bank enters into various irrevocable commitments and contingent liabilities. Even though these obligations may not be recognised in the Statement of Financial Position, they do contain credit risk and are therefore part of the overall risk of the Group and the Bank (see Note 34.4 Credit risk).

39. Analysis of remaining maturities

Expected cash flows are broken down by contractual maturities in accordance with the amortization schedule and arranged in maturity ranges less than 1 year and more than 1 year. The following table shows the contractual maturities as at 31 December 2017 and 31 December 2016.

				GROUP
in HRK million		2016		2017
	< 1 year	> 1 year	< 1 year	> 1 year
Cash and cash balances	4,388	-	4,639	-
Financial assets - held for trading	67	6	46	201
Financial assets – available for sale	3,257	4,575	2,772	5,246
Loans and receivables	20,618	28,367	19,261	29,269
Financial assets – held to maturity	176	1,477	470	1,408
Property, plant and equipment	-	1,309	-	1,262
Investment properties	-	59	-	53
Intangible assets	-	390	-	393
Investments in associates	-	59	-	60
Tax assets	30	219	17	234
Other assets	87	520	110	484
TOTAL ASSETS	**28,623**	**36,981**	**27,315**	**38,610**
Financial liabilities - held for trading	72	5	50	2
Financial liabilities measured at amortised cost	42,902	13,785	42,354	14,278
Provisions	7	77	84	20
Commitments and guarantees given	99	61	113	37
Other provisions	16	-	13	-
Tax liabilities	12	2	139	2
Other liabilities	578	-	627	-
TOTAL LIABILITIES	**43,686**	**13,930**	**43,380**	**14,339**

39. Analysis of remaining maturities (continued)

				BANK
in HRK million	2016 < 1 year	2016 > 1 year	2017 < 1 year	2017 > 1 year
Cash and cash balances	3,737	-	4,170	-
Financial assets - held for trading	67	9	48	202
Financial assets – available for sale	3,263	3,991	2,778	4,690
Loans and receivables	15,647	25,927	15,592	26,052
Financial assets – held to maturity	151	986	470	921
Property, plant and equipment	-	548	-	583
Investment properties	-	36	-	20
Intangible assets	-	110	-	111
Investments in subsidiaries and associates	-	1,010	-	989
Tax assets	10	90	-	88
Other assets	39	498	40	452
TOTAL ASSETS	**22,914**	**33,205**	**23,098**	**34,108**
Financial liabilities - held for trading	71	5	49	3
Financial liabilities measured at amortised cost	36,943	11,777	37,795	11,440
Provisions	16	71	69	9
Commitments and guarantees given	70	59	87	34
Other provisions	-	-	13	-
Tax liabilities	-	-	132	-
Other liabilities	378	-	433	-
TOTAL LIABILITIES	**37,478**	**11,912**	**38,578**	**11,486**

40. Country-by-country reporting

Country	Operating income	Pre-tax result from continuing operations	Taxes on income	Employees
GROUP				**2017**
Croatia	2,899	584	(175)	2,838
Montenegro	178	68	(7)	259
Macedonia	17	(18)	-	44
Slovenia	49	6	(1)	60
Total	**3,143**	**640**	**(183)**	**3,201**

Country	Operating income	Pre-tax result from continuing operations	Taxes on income	Employees
GROUP				**2016**
Croatia	2,916	1,141	(294)	2,751
Montenegro	172	67	(6)	261
Slovenia	45	5	-	61
Total	**3,133**	**1,213**	**(300)**	**3,073**

41. Own funds and capital requirements

Regulatory Scope of Consolidation

In the following pages the Group fulfills the disclosure requirements according to CRR, in detail Articles 436 (b) – (e) CRR and Articles 437 (1) (a), (d), (e) and (f) CRR.

Regulatory Requirements

Since 1 January 2014, the Group has been calculating the regulatory capital and the regulatory capital requirements according to Basel III. The requirements were implemented within the EU by the CRR and the Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 (CRD IV) that were enacted in national law in Croatian Credit Institutions Act (ZOKI), as well as within various technical standards issued by the European Banking Authority (EBA).
All requirements as defined in the CRR, ZOKI and the aforementioned technical standards are fully applied by the Group for regulatory purposes and for the disclosure of regulatory information.

Accounting Principles

The financial and regulatory figures published by the Group are based on IFRS. Eligible capital components derive from the Statement of financial position and Statement of profit or loss which were prepared in accordance with IFRS. Adjustments to the accounting figures are considered due to the different definitions in the scope of consolidation (for details see the following chapter Comparison of consolidation for accounting purposes and regulatory purposes) and for items where the regulatory treatment is not equal to the accounting requirements.
The uniform closing date of the consolidated financial statements and consolidated regulatory figures of the Group is the 31 December of each respective year.

Comparison of consolidation for accounting purposes and regulatory purposes

Disclosure requirements covered: Art. 436 (b) CRR

Scope of Consolidation

Details regarding the accounting scope of consolidation are disclosed in chapter B Significant accounting policies especially under section b) Basis of consolidation of Annual report.
The regulatory scope of consolidation is used as a synonym for the scope of consolidation that follows the regulatory requirements for consolidation as defined by the CRR and Croatian Credit Institutions Act (ZOKI) which introduces the requirements of the CRD IV into national law.

Regulatory scope of consolidation

The regulatory scope of consolidation is defined in Part One, Title II and Chapter 2 Section 3 of the CRR.
The definition of entities to be consolidated for regulatory purposes are mainly defined in Articles 4 (1) (3) and (16) to (27) CRR in line with the Articles 18 and 19 CRR. Based on the relevant sections in Article 4 CRR, entities to be consolidated are determined based on the business activity of the relevant entities.

41. Own funds and capital requirements (continued)

Main differences between the accounting scope and the regulatory scope based on the different requirements as defined within IFRS and CRR:

- based on the CRR, mainly credit institutions pursuant to Article 4 (1) (1) CRR, investment firms pursuant to Article 4 (1) (2) CRR, ancillary services undertakings pursuant to Article 4 (1) (18) CRR and financial institutions pursuant to Article 4 (1) (26) CRR have to be considered within the regulatory scope of consolidation. Under IFRS all other entities not required to be consolidated under CRR, such as insurance undertakings, must be included in the accounting scope of consolidation.
- exclusion of entities from the regulatory scope of consolidation can be applied based on Article 19 CRR. According to Article 19 (1) CRR, entities can be excluded from the regulatory scope if their total assets and off balance sheet items are less than the lower amount of either EUR 10 million or 1% of total assets and off balance sheet items of the parent company. The Group makes use of Article 19 (1) CRR.
- according to Article 19 (2) CRR, entities can also be excluded if the limits defined in Article 19 (1) CRR are exceeded, but are not relevant for regulatory purposes. Exclusion of entities based on Article 19 (2) CRR needs prior approval of the competent authorities. For entities that exceed the limits as defined in Article 19 (1) CRR by insignificant amounts, the Group apply Article 19 (2) CRR and follows the requirements for the approval process as defined within this article. The Group does not apply Article 19 (2) CRR for credit institutions and investment firms.

Consolidation methods

For the calculation of consolidated own funds, the Group generally applies the same consolidation methods as used for accounting purposes.

Consideration of consolidation methods for the calculation of consolidated own funds pursuant to the CRR

The amounts used for the calculation of the own funds derive from the Statement of financial position according to IFRS. The amounts that are used as the basis for calculation of own funds are recalculated based on the definition of the regulatory scope of consolidation pursuant to the CRR. The difference between the IFRS Statement of financial position and the regulatory Statement of financial position is the difference in the scope of consolidation as shown under title Statement of financial position reconciliation.

Consideration of non-consolidated financial sector entities and deferred tax assets that rely on future profitability arising from temporary differences within the calculation of consolidated Common Equity Tier 1 of the Group

Carrying amounts representing the investments in financial sector entities as defined in article 4 (27) CRR that are not fully consolidated or considered by using the at equity consolidation method for regulatory purposes have to be deducted from the own funds based on the requirements as defined in articles 36 (1) (h), 45 and 46 CRR for non-significant investments and articles 36 (1) (i), 43, 45, 47 and 48 CRR for significant investments.
For these purposes, non-significant investments are defined as investments in financial sector entities in which the participation is equal to or less than 10% of Common Equity Tier 1 (CET1) of the relevant financial sector entities, while significant investments are defined as investments that are above 10% of the CET1 of the relevant financial sector entities. To determine the participation in the relevant financial sector entities, these participations are calculated based on the direct, indirect and synthetic holdings in the relevant entities. According to article 46 (1) (a) CRR, holdings in non-significant investments have to be deducted only if the total amount for such investments, including Additional Tier 1 (AT1) items according to article 56 (c) and 59 CRR and Tier 2 items according to article 66 (c) and 70 CRR, exceeds a defined threshold of 10% in relation to CET1 of the reporting institution.

41. Own funds and capital requirements (continued)

Deduction shall be applied to the amount that exceeds the 10% of threshold. Amounts that are equal to or less than 10% of the CET1 of the reporting institution are applied with the appropriate risk weights according Part 3, Title II, Chapter 2 respectively Chapter 3 and if necessary according to the requirements of Part 3, Title IV within the risk weighted assets based on the requirements according to article 46 (4) CRR.

For the deduction of significant investments in the CET1 of financial sector entities, a threshold is defined in article 48 (2) CRR. According to article 48 (2) CRR, significant investments in the CET1 of financial sector entities have only to be deducted if they exceed 10% of the CET1 of the reporting institution. If 10% threshold is exceeded, the deduction is limited to the amount by which the defined threshold is exceeded. The remaining amount has to be considered within the calculation of the risk weighted assets (RWA). The risk weight (RW) is defined at 250% according to article 48 (4) CRR.
In addition to the aforementioned threshold, a combined threshold for the deduction of significant investments according to article 36 (1) (i) CRR and for deferred tax assets that rely on future profitability and arise from temporary differences according to article 36 (1) (c) CRR as well as according to article 38 CRR is defined in article 48 (2) CRR. The combined threshold according to article 48 (2) CRR is defined at 17.65% of the CET1 of the reporting institution. If the threshold is exceeded, the exceeding amount has to be deducted from the CET1 of the reporting institution. The remaining amount has to be considered within the RWAs according to article 48 (3) CRR. A 250% RW shall be applied for the amount not exceeding the 17.65% threshold according to article 48 (4) CRR.

Beside the 17.65% combined threshold, a 10% threshold related to the CET1 capital of the reporting institution is applied for deferred tax assets that rely on future profitability and arising from temporary differences according to article 48 (3) CRR. In case the amount of deferred tax assets that rely on future profitability and which arise from temporary differences exceeds the threshold of 10% of CET1 of the reporting institution the exceeding amount has to be deducted from the CET1 of the reporting institution. The amount that is equal to or less than the threshold as defined in article 48 (3) CRR has to be considered within the calculation of RWAs with a 250% RW according to article 48 (4) CRR.

At the reporting date, the Group did not exceed any of the aforementioned thresholds.

Threshold calculations according to articles 46 and 48 CRR

in HRK million	2016	2017
Non-significant investments in financial sector entities		
Threshold (10% of CET1)	705	745
Holdings in CET1	(3)	(5)
Distance to threshold	**702**	**740**
Significant investments in financial sector entities		
Threshold (10% of CET1)	705	745
Holdings in CET1	(43)	(46)
Distance to threshold	**662**	**699**
Deferred tax assets		
Threshold (10% of CET1)	705	745
Deferred tax assets dependent on future profitability and arises from temporary differences	(219)	(234)
Distance to threshold	**486**	**511**
Combined threshold for deferred tax assets and significant investments		
Threshold (17.65% of CET1)*	1,057	1,118
Deferred tax assets dependent on future profitability and arises from temporary differences and CET1 instruments of financial sector entities where the institution has a significant investment	(262)	(280)
Distance to threshold	**795**	**838**

*In transition period (from 1 January 2014 until 31 December 2017) threshold percentage is 15% in accordance with article 470 CRR.

41. Own funds and capital requirements (continued)

Presentation of the scope of consolidation

Entities within the different scopes of consolidation

2017	IFRS Full	IFRS Equity	CRR Full	CRR Proportional	CRR De Minimis
Credit institutions:					
Erste bank a.d. Podgorica, Montenegro	x	-	x	-	-
Financial institutions, financial holding companies and mixed financial holding companies:					
Erste & Steiermärkische S-Leasing d.o.o.	x	-	x	-	-
Erste Card d.o.o., Slovenia	x	-	x	-	-
Erste Factoring d.o.o. za factoring	x	-	x	-	-
ERSTE CARD CLUB d.o.o. za financijsko posredovanje i usluge	x	-	x	-	-
Diners Club International Mak d.o.o.e.l., Skopje	x	-	x	-	-
Ancillary service undertakings, investment firms and asset management companies:					
Erste Nekretnine d.o.o.	x	-	-	-	x
S Immorent Zeta d.o.o.	-	x	-	-	x
Erste Group IT HR d.o.o.	x	-	-	-	x
Izbor nekretnina d.o.o.	x	-	-	-	x
Other companies					
Erste d.o.o. društvo za upravljanje obveznim mirovinskim fondom	-	x	-	-	-

2016	IFRS Full	IFRS Equity	CRR Full	CRR Proportional	CRR De Minimis
Credit institutions:					
Erste bank a.d. Podgorica, Montenegro	x	-	x	-	-
Financial institutions, financial holding companies and mixed financial holding companies:					
Erste & Steiermärkische S-Leasing d.o.o.	x	-	x	-	-
Erste Card d.o.o., Slovenia	x	-	x	-	-
Erste Factoring d.o.o. za factoring	x	-	x	-	-
ERSTE CARD CLUB d.o.o. za financijsko posredovanje i usluge	x	-	x	-	-
Ancillary service undertakings, investment firms and asset management companies:					
Erste Nekretnine d.o.o.	**x**	**-**	**-**	**-**	**x**
S Immorent Zeta d.o.o.	**-**	**x**	**-**	**-**	**x**
Erste Group IT HR d.o.o.	**x**	**-**	**-**	**-**	**x**
Izbor nekretnina d.o.o.	**x**	**-**	**-**	**-**	**x**
Other companies					
Immokor Buzin d.o.o.	-	x	-	-	-
Erste d.o.o. društvo za upravljanje **obveznim mirovinskim fondom**	-	x	-	-	-

41. Own funds and capital requirements (continued)

Changes within the fully consolidated entities within the regulatory scope of consolidation

During 2017 company Erste Card Club d.o.o. acquired company Diners Club International Mak d.o.o.e.l. Skopje that is included in consolidation scope for regulatory and IFRS purposes.

Impediments to the transfer of own funds

Disclosure requirements covered: art. 436 (c) CRR

Currently there are no restrictions or significant impediments to the transfer of financial funds or regulatory capital within the group of credit institutions. Further details can be found in chapter B Significant accounting policies within Annual report.

Total capital shortfall of all subsidiaries not included in the consolidation

Disclosure requirements covered: art. 436 (d) (e) CRR

There were no capital shortfall at any of the companies of the Group not included in consolidation.

Own funds

Own funds according to Basel III consists of Common equity Tier 1 (CET 1), Additional Tier 1 capital (AT 1) and Tier 2 capital (T2). According to article 92 CRR credit institutions are required to fulfil following requirements; CET 1 capital ratio in amount of 4.5%, Tier 1 capital ratio in amount of 6% and total capital ratio in amount of 8%.

Capital buffer requirements are set out in section VII of the Credit institutions Act. Capital conservation buffer, countercyclical buffer, Globally Systemic Important Institutions buffer, Other Systemic Important Institutions and Systemic risk buffer are further specified in Credit Institutions Act section VII. All capital buffers have to be met entirely with CET1 capital.

Article 117 of ZOKI requires that the Group and the Bank cover capital conservation buffer in amount of 2.5%. Besides capital conservation buffer the Group and the Bank have to establish Other Systemic Important Institution (O-SII) buffer in the amount of 3% in accordance with articles 137, 138 and 139 of ZOKI.

41. Own funds and capital requirements (continued)

Capital structure according to the EU directive 575/2013 (CRR)

in HRK million	Article pursuant to CRR	GROUP 2016	GROUP 2017	BANK 2016	BANK 2017
Common equity tier 1 capital (CET1)					
Capital instruments eligible as CET1 capital	26 (1) (a) (b), 27 to 30, 23 (1) (f), 42	3,499	3,499	3,499	3,499
Own CET1 instruments	36 (1) (f), 42	3,499	3,499	3,499	3,499
Retained earnings	26 (1) (c), 26 (2)	3,592	4,017	2,705	3,128
Accumulated other comprehensive income	4 (100), 26 (1) (d)	261	243	232	214
Other reserves		86	86	86	86
Prudential filter: cumulative gains and losses due to changes in own credit risk on fair valued liabilities	33 (1) (b)	(1)	(1)	(1)	(1)
Value adjustments due to the requirements for prudent valuation	34, 105	(14)	(14)	(13)	(13)
Regulatory adjustments relating to unrealised gains and losses	467, 468	(324)	(311)	(283)	(267)
Goodwill	4 (113), 36 (1) (b), 37	(216)	(216)	-	-
Other intangible assets	4 (115), 36 (1) (b), 37 (a)	(161)	(164)	(110)	(110)
Deferred tax assets dependent upon future profitability and not temporary differences net of associated tax liabilities	36 (1) (c), 38	(1)	-	-	-
Common equity tier 1 capital (CET1)	50	6,721	7,139	6,115	6,536
Tier 2 capital (T2)					
Capital instruments and subordinated loans eligible as T2 capital	62 (a), 63 to 65, 66 (a), 67	1,066	1,064	1,066	1,064
Own T2 instruments	63 (b) (i), 66 (a), 67	1,066	1,064	1,066	1,064
IRB excess of provisions over expected losses eligible	62 (d)	154	159	165	170
Tier 2 capital (T2)	71	1,220	1,223	1,231	1,234
Total own funds – phased-in		7,941	8,362	7,346	7,770
Capital requirement– phased-in	92 (3), 95, 96, 98	3,449	3,449	2,716	2,780
CET1 capital ratio– phased-in	92 (2) (a)	15.59	16.56	18.01	18.81
Tier 1 capital ratio– phased-in	92 (2) (b)	15.59	16.56	18.01	18.81
Total capital ratio– phased-in	92 (2) (c)	18.42	19.40	21.63	22.36
Total own funds - final		8,265	8,674	7,629	8,037
Capital requirement – final	92 (3), 95, 96, 98	3,449	3,449	2,716	2,780
CET1 capital ratio – final	92 (2) (a)	16.34	17.28	18.84	19.58
Tier 1 capital ratio – final	92 (2) (b)	16.34	17.28	18.84	19.58
Total capital ratio – final	92 (2) (c)	19.17	20.12	22.47	23.13

The difference in the amount of the own funds between phased-in and final period refer to unrealised gains from financial assets that are not eligible in transitional period according to national discretions.

41. Own funds and capital requirements (continued)

Risk structure according to EU directive 575/2013 (CRR)

GROUP		2016		2017	
in HRK million	Article pursuant to CRR	Calculation base/total risk	Capital requirement	Calculation base/total risk (final)	Capital requirement (final)
Total risk exposure amount	92 (3), 95, 96, 98	43,116	3,449	43,108	3,449
Risk-weighted assets (credit risk)	92 (3) (a) (f)	36,854	2,947	36,989	2,959
Standardised approach		11,250	899	10,560	845
IRB approach		25,604	2,048	26,429	2,114
Settlement risk	92 (3) (c) (ii), 92 (4) (b)	-		-	
Trading book, foreign FX risk and commodity risk	92 (3) (b) (i) and (iii), 92 (4) (b)	244	20	354	29
Operational risk	92 (3) (e) 92 (4) (b)	5,787	463	5,739	459
Exposure for CVA	92 (3) (d)	231	19	26	2

BANK		2016		2017	
in HRK million	Article pursuant to CRR	Calculation base/total risk	Capital requirement	Calculation base/total risk (phased-in)	Capital requirement (phased-in)
Total risk exposure amount	92 (3), 95, 96, 98	33,956	2,716	34,750	2,780
Risk-weighted assets (credit risk)	92 (3) (a) (f)	29,766	2,381	30,366	2,429
Standardised approach		2,215	177	2,027	162
IRB approach		27,551	2,204	28,339	2,267
Trading book, foreign FX risk and commodity risk	92 (3) (b) (i) and (iii), 92 (4) (b)	29	2	351	28
Operational risk	92 (3) (e) 92 (4) (b)	3,931	315	3,976	318
Exposure for CVA	92 (3) (d)	230	18	57	5

The capital structure table above shows only those positions which are relevant for the Group and the Bank. Basel III final figures (fully loaded) are calculated based on the current requirements according to the CRR. Changes are possible due to final Regulatory Technical Standards (RTS) that are not available yet.

41. Own funds and capital requirements (continued)

Statement of financial position reconciliation

Disclosure requirements covered: Art. 437 (1) (a) CRR

The table below represents the difference between the accounting scope of consolidation and the regulatory scope of consolidation

			2016			2017
in HRK million	IFRS	Effects - scope of consolidation	CRR	IFRS	Effects - scope of consolidation	CRR
Assets						
Cash and cash balances	4,388	-	4,388	4,639	-	4,639
Financial assets - held for trading	73	-	73	247	-	247
Derivatives	73	-	73	52	-	52
Other trading assets	-	-	-	195	-	195
Financial assets - available for sale	7,832	-	7,832	8,018	-	8,018
Financial assets - held to maturity	1,653	-	1,653	1,878	-	1,878
Loans to and receivables from credit institutions	5,329	-	5,329	5,233	(1)	5,232
Loans to and receivables from customers	43,656	38	43,694	43,297	41	43,338
Property and equipment	1,309	(51)	1,258	1,262	(41)	1,221
Investment properties	59	(21)	38	53	(29)	24
Intangible assets	390	(13)	377	393	(13)	380
Investments in associates and joint ventures	59	22	81	60	23	83
Current tax assets	30	-	30	17	-	17
Deferred tax assets	219	-	219	234	-	234
Other assets	607	(4)	603	594	(9)	585
Total assets	**65,604**	**(29)**	**65,575**	**65,925**	**(29)**	**65,896**
Liabilities and equity						
Financial liabilities - held for trading	77	-	77	52	-	52
Derivatives	77	-	77	52	-	52
Financial liabilities measured at amortised costs	56,687	7	56,694	56,632	7	56,639
Deposits from banks	11,652	-	11,652	11,025	-	11,025
Deposits from customers	43,323	9	43,332	44,374	10	44,384
Debt securities issued	924	-	924	376	-	376
Other financial liabilities	788	(2)	786	857	(3)	854
Provisions	260	-	260	267	-	267
Current tax liabilities	12	-	12	139	-	139
Deferred tax liabilities	2	-	2	2	-	2
Other liabilities	578	(8)	570	627	(5)	622
Total liabilities	**57,616**	**(1)**	**57,615**	**57,719**	**2**	**57,721**
Total equity	**7,988**	**(28)**	**7,960**	**8,206**	**(31)**	**8,175**
Equity - attributable to non-controlling interests	235	-	235	156	-	156
Equity - attributable to owners of the parent	7,753	(28)	7,725	8,050	(31)	8,019
Total liabilities and equity	**65,604**	**(29)**	**65,575**	**65,925**	**(29)**	**65,896**

41. Own funds and capital requirements (continued)

The differences between IFRS financial statements and financial statements in accordance with CRR scope of consolidation refers to the scope of companies included in mentioned balances. As of 31 December 2017 difference on position Investments in associates and joint ventures in amount of HRK 23 million (2016: HRK 22 million) refers to investment in associates together with investment in companies listed in table Entities within the different scopes of consolidation that are out of the CRR scope of consolidation. The same amount effects total equity through position Retained earnings and Gain for the year. Details are shown in table Total equity.

Differences on other positions in the Statement of financial position refer to the effects of the companies not included in CRR scope while included in the IFRS scope.

Further details regarding the number of entities within the different scopes of consolidation are disclosed in table Presentation of the scope of consolidation.

Total equity

						2017
in HRK million	**IFRS**	**effects - scope of consolidation**	**CRR**	**Regulatory adjustments**	**Own funds**	**Own funds disclosure table - reference**
Subscribed capital	1,698	-	1,698	-	1,698	a
Capital reserves	1,801	-	1,801	-	1,801	b
Capital instruments and the related share premium accounts	86	-	86	-	86	c
Retained earnings	3,687	(26)	3,661	-	3,661	d
Gain for the year	534	(4)	530	(174)	356	e
Other comprehensive income (OCI)	244	(1)	243	-	243	c
Available for sale reserve	303	(1)	302	-	302	
unrealized gains according to Art. 35 CRR	312	(1)	311	-	311	f
unrealized losses according to Art. 35 CRR	(9)	-	(9)	-	(9)	
Currency translation	(3)	-	(3)	-	(3)	
Deferred tax	(54)	-	(54)	-	(54)	
Other	(2)	-	(2)	-	(2)	
Equity attributable to owners of the parent	8,050	(31)	8,019	(174)	7,845	
Equity attributable to non-controlling interests	156	-	156	(156)	-	
Total equity	**8,206**	**(31)**	**8,175**	**(330)**	**7,845**	

41. Own funds and capital requirements (continued)

Regulatory adjustments in amount of HRK 174 million HRK refer to distributable dividend that is deducted from the profit for the year 2017(2016: HRK 287 million).
Further details regarding the development of IFRS equity are disclosed within Part III Statement of Changes in Equity.

						2016
in HRK million	IFRS	effects - scope of consolidation	CRR	Regulatory adjustments	Own funds	Own funds disclosure table - reference
Subscribed capital	1,698	-	1,698	-	1,698	a
Capital reserves	1,801	-	1,801	-	1,801	b
Capital instruments and the related share premium accounts	86	-	86	-	86	c
Retained earnings	3,031	(25)	3,006	-	3,006	d
Loss for the year	875	(2)	873	(287)	586	e
Other comprehensive income (OCI)	262	(1)	261	-	261	c
Available for sale reserve	323	(1)	322	-	322	
unrealized gains according to Art. 35 CRR	324	-	324	-	324	f
unrealized losses according to Art. 35 CRR	(1)	(1)	(2)	-	(2)	
Currency translation	(1)	-	(1)	-	(1)	
Deferred tax	(58)	-	(58)	-	(58)	
Other	(2)	-	(2)	-	(2)	
Equity attributable to owners of the parent	7,753	(28)	7,725	(287)	7,438	
Equity attributable to non-controlling interests	235	-	235	(235)	-	
Total equity	**7,988**	**(28)**	**7,960**	**(522)**	**7,438**	

Intangible assets

						2017
in HRK million	IFRS	effects - scope of consolidation	CRR	Regulatory adjustments	Own funds	Own funds disclosure table - reference
Intangible assets	**393**	**(13)**	**380**	**-**	**380**	
100% deductible from CET 1 acc. to transitional provisions	393	(13)	380	-	380	g

						2016
in HRK million	IFRS	effects - scope of consolidation	CRR	Regulatory adjustments	Own funds	Own funds disclosure table - reference
Intangible assets	**390**	**(13)**	**377**	**-**	**377**	
100% deductible from CET 1 acc. to transitional provisions	390	(13)	377	-	377	g

Details regarding the development of intangible assets are disclosed under Note 21 Intangible assets.

41. Own funds and capital requirements (continued)

Deferred Taxes

in HRK million	IFRS	effects - scope of consolidation	Own Funds	Own funds disclosure table - reference
				2017
Deferred tax assets	**234**	**-**	**234**	
Deferred tax assets that rely on future profitability and do not arise from temporary differences net of associated tax liabilities	-	-	-	h
Deferred tax assets that rely on future profitability and arise from temporary differences	234	-	234	

in HRK million	IFRS	effects - scope of consolidation	Own Funds	Own funds disclosure table - reference
				2016
Deferred tax assets	**219**	**-**	**219**	
Deferred tax assets that rely on future profitability and do not arise from temporary differences net of associated tax liabilities	1	-	1	h
Deferred tax assets that rely on future profitability and arise from temporary differences	218	-	218	

Based on the threshold definition according to article 48 CRR deferred tax assets that rely on future profitability and arise from temporary differences are not deductible for the Group at year end 2017 and 2016. In accordance with article 48 (4) CRR the non-deductible amount is risk weighted with 250% and considered within the credit risk. Deferred tax assets that rely on future profitability but do not arise from temporary differences are not subject to any threshold (i.e. are completely deducted from CET1).
Details regarding deferred tax assets are disclosed under Note 22 Tax assets and liabilities.

Subordinated liabilities

in HRK million	IFRS	effects - scope of consolidation	CRR	Regulatory adjustments	Own funds	Own funds disclosure table - reference
						2017
Tier 2 capital instruments	**1,277**	**-**	**1,277**	**(213)**	**1,064**	**l**
Subordinated loan	1,277	-	1,277	(213)	1,064	

in HRK million	IFRS	effects - scope of consolidation	CRR	Regulatory adjustments	Own funds	Own funds disclosure table - reference
						2016
Tier 2 capital instruments	**1,684**	**-**	**1,684**	**(618)**	**1,066**	**i**
Subordinated loan	1,062	-	1,062	(62)	1,000	
Subordinated issues	622	-	622	(556)	66	

Details regarding subordinated liabilities are disclosed under Note 24 Financial liabilities measured at amortised costs.

41. Own funds and capital requirements (continued)

Transitional provisions

The transitional provisions which are applied by the Group are based on the CNB's decision on implementing standard of CRR.

Own funds disclosure

Disclosure requirements covered: Art. 437 (1) (d) (e) CRR

The Group does not consider Art. 437 (1) (f) CRR for the calculation of consolidated own funds.
The table below presents the composition of the regulatory capital during the transitional period based on the Implementing Technical Standards on the disclosure of own funds published in the Official Journal of the EU. In column (A) is disclosed current amount, which considers all the transitional requirements, is disclosed. Column (C) discloses the residual amount, implying full CRR implementation. Column (D) provides reference on comparable figures related to IFRS equity, intangible assets, deferred tax assets and subordinated liabilities.

41. Own funds and capital requirements (continued)

in HRK million	(A) 2017	(B) Regulation (EU) No 575/2013 article reference	(C) Amounts subject to Preregulation (EU) No 575/2013 treatment or prescribed residual amount of Regulation (EU) No 575/2013	(D) Reference to reconciliation tables
Common equity tier 1 (CET1) capital: instruments and reserves				
1 Capital instruments and the related share premium accounts	3,499	26 (1), 27, 28, 29, 26 (3)		
1a Ordinary shares	1,698	26 (3)		a
1b Share premium	1,801	26 (3)		b
2 Retained earnings	3,661	26 (1) (c)		d
3 Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	329	26 (1)		c
3a Fund for general banking risk	-	26 (1) (f)		
4 Amount of qualifying items referred to in article 484 (3) and the related share premium accounts subject to phase out from CET1	-	486 (2)		
Public sector capital injections grandfathered until 1 January 2018	-	483 (2)		
5 Minority Interests (amount allowed in consolidated CET1)	-	84, 479, 480		
5a Independently reviewed interim profits net of any foreseeable charge or dividend	356	26 (2)		e
6 CET1 capital before regulatory adjustments	**7,845**			
Common Equity Tier 1 (CET 1) capital: regulatory adjustments				
7 Additional value adjustments (negative amount)	(14)	34, 105		
8 Intangible assets (net of related tax liability) (negative amount)	(380)	36 (1) (b), 37, 472 (4)		g
9 Empty set in the EU	-			
10 Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in article 38 (3) are met) (negative amount)	-	36 (1) (c), 38, 472 (5)		h
11 Fair value reserves related to gains or losses on cash flow hedges	-	33 (a)		
12 Negative amounts resulting from the calculation of expected loss amounts	-	36 (1) (d), 40, 159, 472 (6)		
13 Any increase in equity that results from securitised assets (negative amount)	-	32 (1)		
14 Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	(1)	33 (b)		
15 Defined benefit pension fund assets (negative amount)	-	36 (1) (e), 41, 472 (7)		
16 Direct and indirect holdings by an institution of own CET1 instruments (negative amount)	-	36 (1) (f), 42, 472 (8)		
17 Holdings of the CET1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	-	36 (1) (g), 44, 472 (9)		
18 Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	36 (1) (h), 43, 45, 46, 49 (2) (3), 79, 472 (10)		
19 Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	36 (1) (i), 43, 45, 47, 48 (1) (b), 49 (1) to (3), 79, 470, 472 (11)		
20 Empty set in the EU	-			
20a Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative	-	36 (1) (k)		
20b of which: qualifying holdings outside the financial sector (negative amount)	-	36 (1) (k) (i), 89 to 91		
20c of which: securitisation positions (negative amount)	-	36 (1) (k) (ii) 243 (1) (b) 244 (1) (b) 258		
20d of which: free deliveries (negative amount)	-	36 (1) (k) (iii), 379 (3)		
21 Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability where the conditions in 38 (3) are met) (negative amount)	-	36 (1) (c), 38, 48 (1) (a), 470, 472 (5)		

The table is continued on the next page

41. Own funds and capital requirements (continued)

in HRK million	(A) 2017	(B) Regulation (EU) No 575/2013 article reference	(C) Amounts subject to Preregulation (EU) No 575/2013 treatment or prescribed residual amount of Regulation (EU) No 575/2013	(D) Reference to reconciliation tables
22 Amount exceeding the 15% threshold (negative amount)	-	48 (1)		
23 of which: direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities	-	36 (1) (i), 48 (1) (b), 470, 472 (11)		
24 Empty set in the EU	-			
25 of which: deferred tax assets arising from temporary differences	-	36 (1) (c), 38, 48 (1) (a), 470, 472 (5)		
25a Losses for the current financial year (negative amount)	-	36 (1) (a), 472 (3)		
25b Foreseeable tax charges relating to CET1 items (negative amount)	-	36 (1) (l)		
26 Regulatory adjustments applied to Common Equity Tier 1 in respect of amounts subject to pre-CRR treatment	-			
26a Regulatory adjustments relating to unrealised gains and losses pursuant to articles 467 and 468	-			
of which: unrealised losses	-	467		
of which: unrealised gains	(311)	468		f
26b Amount to be deducted from or added to Common Equity Tier 1 capital with regard to additional filters and deductions required pre CRR	-	481		
27 Qualifying AT1 deductions that exceed the AT1 capital of the institution (negative amount)	-	36 (1) (j)		
28 Total regulatory adjustments to Common equity Tier 1 (CET1)	**(706)**			
29 Common equity Tier 1 (CET1) capital	**7,139**			
Additional Tier 1 (AT1) capital: Instruments	**-**			
30 Capital instruments and the related share premium accounts	-	51, 52		
31 of which: classified as equity under applicable accounting standards	-			
32 of which: classified as liabilities under applicable accounting standards	-			
33 Amount of qualifying items referred to in article 484 (4) and the related share premium accounts subject to phase out from AT1	-	486 (3)		
Public sector capital injections grandfathered until 1 January 2018	-	483 (3)		
34 Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interest not included in row 5) issued by subsidiaries and held by third parties	-	85, 86, 480		
35 of which: instruments issued by subsidiaries subject to phase out	-	486 (3)		
36 Additional Tier 1 (AT1) capital before regulatory adjustments	**-**			
Additional Tier 1 (AT1) capital: regulatory adjustments				
37 Direct and indirect holdings by an institution of own AT1 instruments (negative amount)	-	52 (1) (b), 56 (a), 57, 475 (2)		
38 Holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	-	56 (b), 58, 475 (3)		
39 Direct and indirect holdings of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	56 (c), 59, 60, 79, 475 (4)		
40 Direct and indirect holdings by the institution of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	56 (d), 59, 79, 475 (4)		

The table is continued on the next page.

41. Own funds and capital requirements (continued)

in HRK million	(A) 2017	(B) Regulation (EU) No 575/2013 article reference	(C) Amounts subject to Preregulation (EU) No 575/2013 treatment or prescribed residual amount of Regulation (EU) No 575/2013	(D) Reference to reconciliation tables
41 Regulatory adjustments applied to AT1 in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase-out as prescribed in Regulation (EU) No 575/2013 (ie. CRR residual amounts)	-			
41a Residual amounts deducted from AT1 capital with regard to deduction from CET1 during the transitional period pursuant to article 472 of Regulation (EU) No 575/2013	-	472, 472(3)(a), 472 (4), 472 (6), 472 (8) (a), 472 (9), 472 (10) (a), 472 (11) (a)		
Interim loss	-			
Shortfall of provisions to expected loss	-			
41b Residual amounts deducted from AT1 with regard to deduction from T2 capital during the transitional period pursuant to article 475 of Regulation (EU) No 575/2013	-	477, 477 (3), 477 (4) (a)		
reciprocal cross holdings in T2 instruments	-			
direct holdings of non-significant investments in the capital of other financial sector entities	-			
41c Amount to be deducted from or added to AT1 with regard to additional filters and deductions required pre- CRR	-	467, 468, 481		
possible filter to unrealised losses	-	467		
possible filter to unrealised gains	-	468		
42 Qualifying T2 deductions that exceed the T2 capital of the institution (negative amount)	-	56 (e)		
43 Total regulatory adjustments to Additional tier 1 (AT1) capital	**-**			
44 Additional Tier 1 (AT1) capital	**-**			
45 Tier 1 capital (T1 = CET1 + AT1)	**7,139**			
Tier 2 (T2) capital: Instruments and provisions	-			
46 Capital instruments and the related share premium accounts	1,064	62, 63		i
47 Amount of qualifying items referred to in article 484 (5) and the related share premium accounts subject to phase out from T2	-	486 (4)		
Public sector capital injections grandfathered until 1 January 2018	-	483 (4)		
48 Qualifying own funds instruments included in consolidated T2 capital (including minority interest and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties	-	87, 88, 480		
49 of which: instruments issued by subsidiaries subject to phase-out	-	486 (4)		
50 Credit risk adjustments	159	62 (c) (d)		
51 Tier 2 (T2) capital before regulatory adjustment	**1,223**			
T2 capital: regulatory adjustments	-			
52 Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount)	-	63 (b) (i), 66 (a), 67, 477 (2)		
53 Holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institutions designed to inflate artificially the own funds of the institution (negative amount)	-	66 (b), 68, 477 (3)		
54 Direct and indirect holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10 % threshold and net of eligible short positions) (negative amount)	-	66 (c), 69, 70, 79, 477 (4)		
54a of which: new holdings not subject to transitional arrangements	-			
54b of which: holdings existing before 1 January 2013 and subject to transitional arrangements	-			
55 Direct and indirect holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amounts)	-	66 (d), 69, 79, 477 (4)		
56 Regulatory adjustments applied to T2 in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual amounts)	-			

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41. Own funds and capital requirements (continued)

in HRK million	(A) 2017	(B) Regulation (EU) No 575/2013 article reference	(C) Amounts subject to Preregulation (EU) No 575/2013 treatment or prescribed residual amount of Regulation (EU) No 575/2013	(D) Reference to reconciliation tables
56a Residual amounts deducted from T2 with regard to deduction from CET1 during the transitional period pursuant to article 472 of Regulation (EU) No 575/2013	-	472, 472(3)(a), 472 (4), 472 (6), 472 (8), 472 (9), 472 (10) (a), 472 (11) (a)		
Of which items to be detailed line by line, e.g. Material net interim losses, intangibles, shortfall of provisions to expected losses etc.	-			
56b Residual amounts deducted from T2 with regard to deduction from AT1 during the transitional period pursuant to article 475 of Regulation (EU) No 575/2013	-	475, 475 (2) (a), 475 (3), 475 (4) (a)		
of which: reciprocal cross holdings in T1 instruments	-			
of which: direct holdings of non-significant investments in the capital of other financial sector entities	-			
56c Amounts to be deducted from or added to T2 with regard to additional filters and deductions required pre- CRR	-	467, 468, 481		
of which: possible filter to unrealised losses	-	467		
of which: possible filter to unrealised gains	-	468		
57 Total regulatory adjustments to Tier 2 (T2) capital	**-**			
58 Tier 2 (T2) capital	**1,223**			
59 Total capital (TC = T1 + T2)	**8,362**			
59a Risk weighted assets in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual amount)	43,108			
of which: items not deducted from CET1 (Regulation (EU) No 575/2013 residual amounts) (items to be detailed line by line, e.g. Deferred tax assets that rely on future profitability net of related tax liability, indirect holdings of own CET1, etc.)	-	472, 472 (5), 472 (8) (b), 472 (10) (b), 472 (11) (b)		
of which: items not deducted from AT1 items (Regulation (EU) No 575/2013 residual amounts) (items to be detailed line by line, e.g. Reciprocal cross holdings in T2 instruments, direct holdings of non-significant investments in the capital of other financial sector entities, etc.)	-	475, 475 (2) (b), 475 (2) (c), 475 (4) (b)		
Items not deducted from T2 items (Regulation (EU) No 575/2013 residual amounts) (items to be detailed line by line, e.g. Indirect holdings of own T2 instruments, indirect holdings of non-significant investments in the capital of other financial sector entities, indirect holdings of significant investments in the capital of other financial sector entities etc.)	-	477, 477 (2) (b), 477 (2) (c), 477 (4) (b)		
60 Total risk-weighted assets	**43,108**			
Capital ratios and buffers	-			
61 Common Equity Tier 1 (as a percentage of total risk exposure amount)	16.56%	92 (2) (a), 465		
62 Tier 1 (as a percentage of total risk exposure amount)	16.56%	92 (2) (b), 465		
63 Total capital (as a percentage of total risk exposure amount	19.40%	92 (2) (c)		
64 Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements plus a systemic risk buffer, plus systemically important institution buffer expressed as a percentage of total risk exposure amount)	10.00%	CRD 128, 129, 130		
65 of which: capital conservation buffer requirement	2.50%			
66 of which: countercyclical buffer requirement	-			
67 of which: systemic risk buffer requirement	3.00%			
67a of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	-	CRD 131		
68 Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	5.96%	CRD 128		

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41. Own funds and capital requirements (continued)

in HRK million	(A) 2017	(B) Regulation (EU) No 575/2013 article reference	(C) Amounts subject to Preregulation (EU) No 575/2013 treatment or prescribed residual amount of Regulation (EU) No 575/2013	(D) Reference to reconciliation tables
69 [non-relevant in EU regulation]	-			
70 [non-relevant in EU regulation]	-			
71 [non-relevant in EU regulation]	-			
Amounts below the thresholds for deduction (before risk-weighting)	-			
72 Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	5	36 (1) (h), 45, 46, 472 (10) 56 (c), 59, 60, 475 (4), 66 (c), 69, 70, 477 (4)		
73 Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	46	36 (1) (i), 45, 48, 470, 472 (11)		
74 Empty set in the EU	-			
75 Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability where the conditions in article 38 (3) are met)	-	36 (1) (c), 38, 48, 470, 472 (5)		
Applicable caps on the inclusion of provisions in Tier 2	-			
76 Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)	-	62		
77 Cap on inclusion of credit risk adjustments in T2 under standardised approach	-	62		
78 Credit risk adjustments included in T2 in respect of exposures subject to internal rating-based approach (prior to the application of the cap)	159	62		
79 Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	26,429	62		
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2013 and 1 Jan 2022)	-			
80 Current cap on CET1 instruments subject to phase-out arrangements	-	484 (3), 486 (2) & (5)		
81 Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	-	484 (3), 486 (2) & (5)		
82 Current cap on AT1 instruments subject to phase-out arrangements	-	484 (4), 486 (3) & (5)		
83 Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	-	484 (4), 486 (3) & (5)		
84 Current cap on T2 instruments subject to phase-out arrangements	-	484 (5), 486 (4) & (5)		
85 Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	-	484 (5), 486 (4) & (5)		

41. Own funds and capital requirements (continued)

in HRK million	(A) 2016	(B) Regulation (EU) No 575/2013 article reference	(C) Amounts subject to Preregulation (EU) No 575/2013 treatment or prescribed residual amount of Regulation (EU) No 575/2013	(D) Reference to reconciliation tables
Common equity tier 1 (CET1) capital: instruments and reserves				
1 Capital instruments and the related share premium accounts	3,499	26 (1), 27, 28, 29, 26 (3)		
1a Ordinary shares	1,698	26 (3)		a
1b Share premium	1,801	26 (3)		b
2 Retained earnings	3,006	26 (1) (c)		d
3 Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	347	26 (1)		c
3a Fund for general banking risk	-	26 (1) (f)		
4 Amount of qualifying items referred to in article 484 (3) and the related share premium accounts subject to phase out from CET1	-	486 (2)		
Public sector capital injections grandfathered until 1 January 2018	-	483 (2)		
5 Minority Interests (amount allowed in consolidated CET1)	-	84, 479, 480		
5a Independently reviewed interim profits net of any foreseeable charge or dividend	586	26 (2)		e
6 CET1 capital before regulatory adjustments	**7,438**			
Common Equity Tier 1 (CET 1) capital: regulatory adjustments				
7 Additional value adjustments (negative amount)	(14)	34, 105		
8 Intangible assets (net of related tax liability) (negative amount)	(377)	36 (1) (b), 37, 472 (4)		g
9 Empty set in the EU	-			
10 Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in article 38 (3) are met) (negative amount)	(1)	36 (1) (c), 38, 472 (5)		h
11 Fair value reserves related to gains or losses on cash flow hedges	-	33 (a)		
12 Negative amounts resulting from the calculation of expected loss amounts	-	36 (1) (d), 40, 159, 472 (6)		
13 Any increase in equity that results from securitised assets (negative amount)	-	32 (1)		
14 Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	(1)	33 (b)		
15 Defined benefit pension fund assets (negative amount)	-	36 (1) (e), 41, 472 (7)		
16 Direct and indirect holdings by an institution of own CET1 instruments (negative amount)	-	36 (1) (f), 42, 472 (8)		
17 Holdings of the CET1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	-	36 (1) (g), 44, 472 (9)		
18 Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	36 (1) (h), 43, 45, 46, 49 (2) (3), 79, 472 (10)		
19 Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	36 (1) (i), 43, 45, 47, 48 (1) (b), 49 (1) to (3), 79, 470, 472 (11)		
20 Empty set in the EU	-			
20a Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative	-	36 (1) (k)		
20b of which: qualifying holdings outside the financial sector (negative amount)	-	36 (1) (k) (i), 89 to 91		
20c of which: securitisation positions (negative amount)	-	36 (1) (k) (ii) 243 (1) (b) 244 (1) (b) 258		
20d of which: free deliveries (negative amount)	-	36 (1) (k) (iii), 379 (3)		
21 Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability where the conditions in 38 (3) are met) (negative amount)	-	36 (1) (c), 38, 48 (1) (a), 470, 472 (5)		

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41. Own funds and capital requirements (continued)

in HRK million	(A) 2016	(B) Regulation (EU) No 575/2013 article reference	(C) Amounts subject to Preregulation (EU) No 575/2013 treatment or prescribed residual amount of Regulation (EU) No 575/2013	(D) Reference to reconciliation tables
22 Amount exceeding the 15% threshold (negative amount)	-	48 (1)		
23 of which: direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities	-	36 (1) (i), 48 (1) (b), 470, 472 (11)		
24 Empty set in the EU	-			
25 of which: deferred tax assets arising from temporary differences	-	36 (1) (c), 38, 48 (1) (a), 470, 472 (5)		
25a Losses for the current financial year (negative amount)	-	36 (1) (a), 472 (3)		
25b Foreseeable tax charges relating to CET1 items (negative amount)	-	36 (1) (l)		
26 Regulatory adjustments applied to Common Equity Tier 1 in respect of amounts subject to pre-CRR treatment	-			
26a Regulatory adjustments relating to unrealised gains and losses pursuant to articles 467 and 468	-			
of which: unrealised losses	-	467		
of which: unrealised gains	(324)	468		f
26b Amount to be deducted from or added to Common Equity Tier 1 capital with regard to additional filters and deductions required pre CRR	-	481		
27 Qualifying AT1 deductions that exceed the AT1 capital of the institution (negative amount)	-	36 (1) (j)		
28 Total regulatory adjustments to Common equity Tier 1 (CET1)	**(717)**			
29 Common equity Tier 1 (CET1) capital	**6,721**			
Additional Tier 1 (AT1) capital: Instruments	**-**			
30 Capital instruments and the related share premium accounts	-	51, 52		
31 of which: classified as equity under applicable accounting standards	-			
32 of which: classified as liabilities under applicable accounting standards	-			
33 Amount of qualifying items referred to in article 484 (4) and the related share premium accounts subject to phase out from AT1	-	486 (3)		
Public sector capital injections grandfathered until 1 January 2018	-	483 (3)		
34 Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interest not included in row 5) issued by subsidiaries and held by third parties	-	85, 86, 480		
35 of which: instruments issued by subsidiaries subject to phase out	-	486 (3)		
36 Additional Tier 1 (AT1) capital before regulatory adjustments	**-**			
Additional Tier 1 (AT1) capital: regulatory adjustments				
37 Direct and indirect holdings by an institution of own AT1 instruments (negative amount)	-	52 (1) (b), 56 (a), 57, 475 (2)		
38 Holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	-	56 (b), 58, 475 (3)		
39 Direct and indirect holdings of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	56 (c), 59, 60, 79, 475 (4)		
40 Direct and indirect holdings by the institution of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	56 (d), 59, 79, 475 (4)		

The table is continued on the next page

41. Own funds and capital requirements (continued)

in HRK million	(A) 2016	(B) Regulation (EU) No 575/2013 article reference	(C) Amounts subject to Preregulation (EU) No 575/2013 treatment or prescribed residual amount of Regulation (EU) No 575/2013	(D) Reference to reconciliation tables
41 Regulatory adjustments applied to AT1 in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase-out as prescribed in Regulation (EU) No 575/2013 (ie. CRR residual amounts)	-			
41a Residual amounts deducted from AT1 capital with regard to deduction from CET1 during the transitional period pursuant to article 472 of Regulation (EU) No 575/2013	-	472, 472(3)(a), 472 (4), 472 (6), 472 (8) (a), 472 (9), 472 (10) (a), 472 (11) (a)		
Interim loss	-			
Shortfall of provisions to expected loss	-			
41b Residual amounts deducted from AT1 with regard to deduction from T2 capital during the transitional period pursuant to article 475 of Regulation (EU) No 575/2013	-	477, 477 (3), 477 (4) (a)		
reciprocal cross holdings in T2 instruments	-			
direct holdings of non-significant investments in the capital of other financial sector entities	-			
41c Amount to be deducted from or added to AT1 with regard to additional filters and deductions required pre- CRR	-	467, 468, 481		
possible filter to unrealised losses	-	467		
possible filter to unrealised gains	-	468		
42 Qualifying T2 deductions that exceed the T2 capital of the institution (negative amount)	-	56 (e)		
43 Total regulatory adjustments to Additional tier 1 (AT1) capital	**-**			
44 Additional Tier 1 (AT1) capital	**-**			
45 Tier 1 capital (T1 = CET1 + AT1)	**6,721**			
Tier 2 (T2) capital: Instruments and provisions	-			
46 Capital instruments and the related share premium accounts	1,066	62, 63		i
47 Amount of qualifying items referred to in article 484 (5) and the related share premium accounts subject to phase out from T2	-	486 (4)		
Public sector capital injections grandfathered until 1 January 2018	-	483 (4)		
48 Qualifying own funds instruments included in consolidated T2 capital (including minority interest and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties	-	87, 88, 480		
49 of which: instruments issued by subsidiaries subject to phase-out	-	486 (4)		
50 Credit risk adjustments	154	62 (c) (d)		
51 Tier 2 (T2) capital before regulatory adjustment	**1,220**			
T2 capital: regulatory adjustments	-			
52 Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount)	-	63 (b) (i), 66 (a), 67, 477 (2)		
53 Holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institutions designed to inflate artificially the own funds of the institution (negative amount)	-	66 (b), 68, 477 (3)		
54 Direct and indirect holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10 % threshold and net of eligible short positions) (negative amount)	-	66 (c), 69, 70, 79, 477 (4)		
54a of which: new holdings not subject to transitional arrangements	-			
54b of which: holdings existing before 1 January 2013 and subject to transitional arrangements	-			
55 Direct and indirect holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amounts)	-	66 (d), 69, 79, 477 (4)		
56 Regulatory adjustments applied to T2 in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual amounts)	-			

The table is continued on the next page

41. Own funds and capital requirements (continued)

in HRK million	(A) 2016	(B) Regulation (EU) No 575/2013 article reference	(C) Amounts subject to Preregulation (EU) No 575/2013 treatment or prescribed residual amount of Regulation (EU) No 575/2013	(D) Reference to reconciliation tables
56a Residual amounts deducted from T2 with regard to deduction from CET1 during the transitional period pursuant to article 472 of Regulation (EU) No 575/2013	-	472, 472(3)(a), 472 (4), 472 (6), 472 (8), 472 (9), 472 (10) (a), 472 (11) (a)		
Of which items to be detailed line by line, e.g. Material net interim losses, intangibles, shortfall of provisions to expected losses etc.	-			
56b Residual amounts deducted from T2 with regard to deduction from AT1 during the transitional period pursuant to article 475 of Regulation (EU) No 575/2013	-	475, 475 (2) (a), 475 (3), 475 (4) (a)		
of which: reciprocal cross holdings in T1 instruments	-			
of which: direct holdings of non-significant investments in the capital of other financial sector entities	-			
56c Amounts to be deducted from or added to T2 with regard to additional filters and deductions required pre- CRR	-	467, 468, 481		
of which: possible filter to unrealised losses	-	467		
of which: possible filter to unrealised gains	-	468		
57 Total regulatory adjustments to Tier 2 (T2) capital	**-**			
58 Tier 2 (T2) capital	**1,220**			
59 Total capital (TC = T1 + T2)	**7,941**			
59a Risk weighted assets in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual amount)	43,116			
of which: items not deducted from CET1 (Regulation (EU) No 575/2013 residual amounts) (items to be detailed line by line, e.g. Deferred tax assets that rely on future profitability net of related tax liability, indirect holdings of own CET1, etc.)	-	472, 472 (5), 472 (8) (b), 472 (10) (b), 472 (11) (b)		
of which: items not deducted from AT1 items (Regulation (EU) No 575/2013 residual amounts) (items to be detailed line by line, e.g. Reciprocal cross holdings in T2 instruments, direct holdings of non-significant investments in the capital of other financial sector entities, etc.)	-	475, 475 (2) (b), 475 (2) (c), 475 (4) (b)		
Items not deducted from T2 items (Regulation (EU) No 575/2013 residual amounts) (items to be detailed line by line, e.g. Indirect holdings of own T2 instruments, indirect holdings of non-significant investments in the capital of other financial sector entities, indirect holdings of significant investments in the capital of other financial sector entities etc.)	-	477, 477 (2) (b), 477 (2) (c), 477 (4) (b)		
60 Total risk-weighted assets	**43,116**			
Capital ratios and buffers	-			
61 Common Equity Tier 1 (as a percentage of total risk exposure amount)	15.59%	92 (2) (a), 465		
62 Tier 1 (as a percentage of total risk exposure amount)	15.59%	92 (2) (b), 465		
63 Total capital (as a percentage of total risk exposure amount	18.42%	92 (2) (c)		
64 Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements plus a systemic risk buffer, plus systemically important institution buffer expressed as a percentage of total risk exposure amount)	10.00%	CRD 128, 129, 130		
65 of which: capital conservation buffer requirement	2.50%			
66 of which: countercyclical buffer requirement	-			
67 of which: systemic risk buffer requirement	3.00%			
67a of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	-	CRD 131		
68 Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	5.50%	CRD 128		

The table is continued on the next page

41. Own funds and capital requirements (continued)

in HRK million	(A) 2016	(B) Regulation (EU) No 575/2013 article reference	(C) Amounts subject to Preregulation (EU) No 575/2013 treatment or prescribed residual amount of Regulation (EU) No 575/2013	(D) Reference to reconciliation tables
69 [non-relevant in EU regulation]	-			
70 [non-relevant in EU regulation]	-			
71 [non-relevant in EU regulation]	-			
Amounts below the thresholds for deduction (before risk-weighting)	-			
72 Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	3	36 (1) (h), 45, 46, 472 (10) 56 (c), 59, 60, 475 (4), 66 (c), 69, 70, 477 (4)		
73 Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	43	36 (1) (i), 45, 48, 470, 472 (11)		
74 Empty set in the EU	-			
75 Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability where the conditions in article 38 (3) are met)	-	36 (1) (c), 38, 48, 470, 472 (5)		
Applicable caps on the inclusion of provisions in Tier 2	-			
76 Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)	-	62		
77 Cap on inclusion of credit risk adjustments in T2 under standardised approach	-	62		
78 Credit risk adjustments included in T2 in respect of exposures subject to internal rating-based approach (prior to the application of the cap)	154	62		
79 Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	25,604	62		
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2013 and 1 Jan 2022)	-			
80 Current cap on CET1 instruments subject to phase-out arrangements	-	484 (3), 486 (2) & (5)		
81 Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	-	484 (3), 486 (2) & (5)		
82 Current cap on AT1 instruments subject to phase-out arrangements	-	484 (4), 486 (3) & (5)		
83 Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	-	484 (4), 486 (3) & (5)		
84 Current cap on T2 instruments subject to phase-out arrangements	-	484 (5), 486 (4) & (5)		
85 Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	-	484 (5), 486 (4) & (5)		

42. Earnings per share

For the purposes of calculating earnings per share, earnings are calculated as the net profit for the period attributable to ordinary shareholders after deducting preference dividends, if any. A reconciliation of the profit after tax attributable to ordinary shareholders is provided below.

in HRK million	GROUP	
	2016	2017
Net result for the period	875	534
Profit or loss attributable to ordinary shareholders	875	534
Weighted average number of shares of 100 HRK each (for basic and diluted earnings per share)	16,984,175	16,984,175
Earnings per ordinary share – basic and diluted (in HRK)	**51.48**	**31.42**

Forms according to local requirements

Pursuant to the Decision of the CNB on structure and content of Bank's annual financial statements from 30 March 2017 below we present the required forms for the Group and the Bank for the year ended 31 December 2017 in the form required by the decision. Information about the basis of presentation as well as a summary of accounting policies are given in the notes to the financial statements. Information important for better understanding of certain positions of the statement of financial position, income statement, changes in equity as well as cash flow statement are also included in the notes.
Differences between forms (appendix 1) presented below on pages 230 to 239 and primary financial statements are presented in appendix 2 titled Differences between financial statements according to IFRS and local requirements.

Income statement

in HRK million		GROUP
	2016	2017
1. Interest income	2,911	2,624
2. Interest expense	851	553
3. Net interest income (1.-2.)	**2,060**	**2,071**
4. Fee and commission income	865	937
5. Fee and commission expense	202	222
6. Net fee and commission income (4.-5.)	**663**	**715**
7. Profit/loss from investments in subsidiaries, associates and joint ventures	-	-
8. Profit/loss from trading	91	37
9. Profit/loss from embedded derivatives	-	-
10. Profit/loss from asset not actively traded measured at fair value through profit or loss	-	-
11. Profit/loss from asset available for sale	65	5
12. Profit/loss from asset held to maturity	-	-
13. Profit/loss from hedging	-	-
14. Income from investments in subsidiaries, associates and joint ventures	-	-
15. Income from other ownership investments	10	11
16. Profit/loss from foreign currency differences	131	162
17. Other income	519	490
18. Other expenses	278	290
19. General administrative expenses and depreciation	1,532	1,595
20. Net income from business before value adjustment and loan loss provisions (3.+6. to 17.-18.-19.)	**1,729**	**1,606**
21. Expense of value adjustment and loan loss provisions	516	966
22. PROFIT/LOSS BEFORE TAX (20.-21.)	**1,213**	**640**
23. INCOME TAX EXPENSE	300	183
24. PROFIT/LOSS OF THE CURRENT YEAR (22.-23.)	**913**	**457**
25. Earnings per share	51.48	31.42
ANNEX TO INCOME STATEMENT (for the Banks that prepare consolidated financial statements)		
1. PROFIT/LOSS OF THE CURRENT YEAR	**913**	**457**
2. Assign equity holders of the Bank	**875**	**534**
3. Non-controlling interest (1.-2.)	**38**	**(77)**

Statement of financial position

In HRK million		GROUP
	2016	2017
ASSETS		
1. Cash and deposits with Central bank (1.1.+1.2.)	6,971	7,549
1.1. Cash	1,216	1,491
1.2. Deposits with Central bank	5,755	6,058
2. Deposits with banking institutions	691	858
3. Treasury bills with ministry of finance and bills of exchange with central bank	327	301
4. Securities and other financial instruments held for trading	-	195
5. Securities and other financial instruments available for sale	7,738	7,936
6. Securities and other financial instruments held to maturity	1,285	1,533
7. Securities and other financial instruments not actively traded, measured at fair value through profit or loss	-	-
8. Derivative financial assets	73	52
9. Loans to financial institutions	2,490	2,235
10. Loans to other customers	42,819	41,986
11. Investments in associates, subsidiaries and joint ventures	59	62
12. Repossessed assets	506	463
13. Tangible asset (minus depreciation)	1,368	1,315
14. Interest, fees and other assets	1,277	1,440
A) TOTAL ASSETS (1.+2. to 14.)	**65,604**	**65,925**
LIABILITIES		
1. Borrowings from financial institutions (1.1. + 1.2.)	7,565	6,051
1.1. Short-term borrowings	4,572	3,031
1.2. Long-term borrowings	2,993	3,020
2. Deposits (2.1. to 2.3.)	43,891	45,649
2.1. Deposits of giro and current accounts	13,612	18,089
2.2. Savings deposits	2,832	2,628
2.3. Term deposits	27,447	24,932
3. Other borrowings (3.1.+3.2.)	2,329	2,313
3.1. Short-term borrowings	89	101
3.2. Long-term borrowings	2,240	2,212
4. Derivative financial liabilities and other financial liabilities held for trading	77	52
5. Issued debt securities (5.1.+5.2.)	300	376
5.1. Short-term issued debt instruments	-	-
5.2. Long-term issued debt instruments	300	376
6. Issued subordinated instruments	1,663	1,277
7. Issued hybrid instruments	-	-
8. Interest, fees and other liabilities	1,791	2,001
B) TOTAL LIABILITIES (1.+2.+3.+4.+5.+6.+7.+8.)	**57,616**	**57,719**
EQUITY		
1. Share capital	3,500	3,500
2. Profit/(loss) of the current year	913	457
3. Retained profit/(loss)	3,227	3,920
4. Legal reserves	85	85
5. Statutory and other capital reserves	(3)	(5)
6. Unrealised profit/(loss) from value adjustment of financial assets available for sale	266	249
7. Reserves resulting from protective transactions	-	-
C) TOTAL EQUITY (1. to 7.)	**7,988**	**8,206**
D) TOTAL LIABILITIES AND EQUITY (B+C)	**65,604**	**65,925**
SUPPLEMENT TO STATEMENT OF FINANCIAL POSITION (filled out by banks that compose a consolidated financial report)		
1. TOTAL EQUITY	**7,988**	**8,206**
2. Attributed to equity holders of the parent	7,753	8,050
3. Non-controlling interest (1.-2.)	235	156

Statement of changes in shareholders' equity

GROUP

In HRK million								2017
	Share capital	Treasury shares	Legal, statutory and other reserves	Retained earnings/(loss)	Profit/(loss) for the period	Unrealised profit/(loss) from the basis of value adjustment of financial assets available for sale	Non-controlling interest	Total capital and reserves
1. Balance at 1 January	**3,500**	**-**	**82**	**3,031**	**874**	**266**	**235**	**7,988**
2. Changes in accounting policies and corrections of mistakes	-	-	-	-	-	-	-	-
3. Corrected balance as at 1 January (1+2)	**3,500**	**-**	**82**	**3,031**	**874**	**266**	**235**	**7,988**
4. Sale of financial assets available for sale	-	-	-	-	-	(1)	-	(1)
5. Change of fair value financial asset available for sale	-	-	-	-	-	(19)	-	(19)
6. Tax on items directly recognised or transferred from capital and reserves	-	-	-	-	-	4	-	4
7. Other profit/(loss) directly recognised in capital and reserves	-	-	(2)	-	-	-	-	(2)
8. Net profit/(loss) directly recognised in capital and reserves (4+5+6+7)	-	-	(2)	-	-	(16)	-	(18)
9. Profit/(loss) for the period	-	-	-	-	534	-	(77)	457
10. Total recognised income and expenses for the period (8+9)	-	-	(2)	-	534	(16)	(77)	439
11. Increase/(decrease) of share capital	-	-	-	-	-	-	-	-
12. Buy/sell of treasury shares	-	-	-	-	-	-	-	-
13. Other changes	-	-	-	-	-	-	-	-
14. Transfer to reserves	-	-	-	874	(874)	-	-	-
15. Dividends paid	-	-	-	(219)		-	(2)	(221)
16. Distribution on income (14+15)	-	-	-	655	(874)	-	(2)	(221)
17. Balance at reporting date (3+10+11+12+13+16)	**3,500**	**-**	**80**	**3,686**	**534**	**250**	**156**	**8,206**

Statement of changes in shareholders' equity

GROUP

In HRK million								2016
	Share capital	Treasury shares	Legal, statutory and other reserves	Retained earnings/(loss)	Profit/(loss) for the period	Unrealised profit/(loss) from the basis of value adjustment of financial assets available for sale	Non-controlling interest	Total capital and reserves
1. Balance at 1 January	**3,500**	**-**	**86**	**3,847**	**(816)**	**293**	**201**	**7,111**
2. Changes in accounting policies and corrections of mistakes	-	-	-	-	-	-	-	-
3. Corrected balance as at 1 January (1+2)	**3,500**	**-**	**86**	**3,847**	**(816)**	**293**	**201**	**7,111**
4. Sale of financial assets available for sale	-	-	-	-	-	(65)	-	(65)
5. Change of fair value financial asset available for sale	-	-	-	-	-	23	-	23
6. Tax on items directly recognised or transferred from capital and reserves	-	-	-	-	-	15	-	15
7. Other profit/(loss) directly recognised in capital and reserves	-	-	(4)	-	-	-	-	(4)
8. Net profit/(loss) directly recognised in capital and reserves (4+5+6+7)	-	-	(4)	-	-	(27)	-	(31)
9. Profit/(loss) for the period	-	-	-	-	874	-	38	912
10. Total recognised income and expenses for the period (8+9)	-	-	(4)	-	874	(27)	38	881
11. Increase/(decrease) of share capital	-	-	-	-	-	-	-	-
12. Buy/sell of treasury shares	-	-	-	-	-	-	-	-
13. Other changes	-	-	-	-	-	-	1	1
14. Transfer to reserves	-	-	-	(816)	816	-	-	-
15. Dividends paid	-	-	-	-	-	-	(5)	(5)
16. Distribution on income (14+15)	-	-	-	(816)	816	-	(5)	(5)
17. Balance at reporting date (3+10+11+12+13+16)	**3,500**	**-**	**82**	**3,031**	**874**	**266**	**235**	**7,988**

Cash flow statements

In HRK million	GROUP 2016	2017
OPERATING ACTIVITIES		
1.1. Profit/(loss) before income tax	1,213	640
1.2. Allowances and loss provisions	(2,081)	904
1.3. Depreciation	236	228
1.4. Net unrealized profit/(loss) from financial assets and liabilities through profit or loss		-
1.5. Profit/(loss) from sale of tangible assets	(12)	(12)
1.6. Other profit/(losses)	1	3
1. Cash flow from operating activities before changes of operating asset (1.1. to 1.6.)	**(643)**	**1,763**
2.1. Deposits with Central Bank	788	(192)
2.2. Treasury bills of Ministry of Finance and bills of exchange with CB	242	176
2.3. Deposits with banks and loans to financial institutions	(1,110)	360
2.4. Loans to other customers	3,768	6
2.5. Securities and other financial instruments held for trading	134	(195)
2.6. Securities and other financial instruments available for sale	(1,035)	(205)
2.7. Securities and other financial instruments not held for trading, measured at fair value through profit or loss	-	-
2.8. Other operating assets	(159)	(56)
2. Net increase/(decrease) of operating assets (2.1. to 2.8.)	**2,628**	**(106)**
3.1. Demand deposits	2,341	4,442
3.2. Savings and term deposits	(4,390)	(2,719)
3.3. Financial derivative liabilities and other liabilities held for trading	(26)	(26)
3.4. Other liabilities	(61)	73
3. Net increase/(decrease) of operating liabilities (3.1. to 3.4.)	**(2,136)**	**1,770**
4. Net cash flow from operating activities before income tax (1+2+3)	**(151)**	**3,427**
5. (Income tax paid)	**(11)**	**(61)**
6. Net inflow/(outflow) of cash from operating activities (4-5)	**(162)**	**3,366**
INVESTING ACTIVITIES		
7.1. Receipt from sale/(payment for buying) tangible and intangible assets	(326)	(183)
7.2. Receipt from sale/(payment for buying) investments in subsidiaries, associates and joint ventures	3	(55)
7.3. Receipt from sale/(payment for buying) securities and other financial instruments held to maturity	(433)	(263)
7.4. Dividend income	-	(2)
7.5. Other receipts/(payments) from investing activities	-	-
7. Net cash flow from investing activities (7.1. to 7.5.)	**(756)**	**(503)**
FINANCIAL ACTIVITIES		
8.1. Net increase/(decrease) of borrowings	(561)	(1,529)
8.2. Net increase/(decrease) issued debt securities	-	76
8.3. Net increase/(decrease) subordinated and hybrid instruments	(17)	(385)
8.4. Receipts from transmitted share capital	-	-
8.5. (Dividends paid)	(6)	(219)
8.6. Other receipts/(payments) from financial activities	-	-
8. Net cash flow from financial activities (8.1. to 8.6.)	**(584)**	**(2,057)**
9. Net increase/(decrease) of cash and cash equivalents (6+7+8)	(1,502)	806
10. Effects of change in foreign exchange rates on cash and cash equivalents	-	
11. Net increase/(decrease) cash and cash equivalents (9+10)	**(1,502)**	**806**
12. Cash and cash equivalents at the beginning of the year	**6,041**	**4,539**
13. Cash and cash equivalents at the end of the year	**4,539**	**5,345**

Off balance sheet items

	GROUP 2016	2017
1. Guarantees	2,462	2,838
2. Letters of credit	140	136
3. Bills of exchange	-	-
4. Undrawn loans and loan commitments	5,417	5,439
5. Other risk off balance items	128	38
6. Futures	-	-
7. Options	15	3
8. Swaps	14,074	12,243
9. Forwards	7,179	8,900
10. Other derivatives	-	-

Income statement

in HRK million		BANK
	2016	**2017**
1. Interest income	2,314	2,112
2. Interest expense	732	456
3. Net interest income (1.-2.)	**1,582**	**1,656**
4. Fee and commission income	560	610
5. Fee and commission expense	150	165
6. Net fee and commission income (4.-5.)	**410**	**445**
7. Profit/loss from investments in subsidiaries, associates and joint ventures	-	-
8. Profit/loss from trading	92	36
9. Profit/loss from embedded derivatives	-	-
10. Profit/loss from asset not actively traded measured at fair value through profit or loss	-	-
11. Profit/loss from asset available for sale	50	3
12. Profit/loss from asset held to maturity	-	-
13. Profit/loss from hedging	-	-
14. Income from investments in subsidiaries, associates and joint ventures	-	-
15. Income from other ownership investments	31	25
16. Profit/loss from foreign currency differences	120	166
17. Other income	212	185
18. Other expenses	173	139
19. General administrative expenses and depreciation	994	1,066
20. Net income from business before value adjustment and loan loss provisions (3.+6. to 17.-18.-19.)	**1,330**	**1,311**
21. Expense of value adjustment and loan loss provisions	499	500
22. PROFIT/LOSS BEFORE TAX (20.-21.)	**831**	**811**
23. INCOME TAX EXPENSE	204	162
24. PROFIT/LOSS OF THE CURRENT YEAR (22.-23.)	**627**	**649**
25. Earnings per share		
ANNEX TO INCOME STATEMENT (for the Banks that prepare consolidated financial statements)		
1. PROFIT/LOSS OF THE CURRENT YEAR		
2. Assign equity holders of the Bank		
3. Non-controlling interest (1.-2.)		

Statement of financial position

In HRK million		BANK
	2016	**2017**
ASSETS		
1. Cash and deposits with Central bank (1.1. + 1.2.)	6,418	7,210
1.1. Cash	1,101	1,366
1.2. Deposits with Central bank	5,317	5,844
2. Deposits with banking institutions	592	633
3. Treasury bills with ministry of finance and bills of exchange with central bank	-	-
4. Securities and other financial instruments held for trading	-	195
5. Securities and other financial instruments available for sale	7,167	7,392
6. Securities and other financial instruments held to maturity	1,115	1,364
7. Securities and other financial instruments not actively traded, measured at fair value through profit or loss	-	-
8. Derivative financial assets	76	55
9. Loans to financial institutions	3,048	2,577
10. Loans to other customers	34,932	35,087
11. Investments in associates, subsidiaries and joint ventures	1,010	989
12. Repossessed assets	497	453
13. Tangible asset (minus depreciation)	584	603
14. Interest, fees and other assets	680	648
A) TOTAL ASSETS (1. + 2. to 14.)	**56,119**	**57,206**
LIABILITIES		
1. Borrowings from financial institutions (1.1. + 1.2.)	2,224	1,327
1.1. Short-term borrowings	784	157
1.2. Long-term borrowings	1,440	1,170
2. Deposits (2.1. to 2.3.)	41,992	43,781
2.1. Deposits of giro and current accounts	12,783	16,976
2.2. Savings deposits	2,658	2,425
2.3. Term deposits	26,551	24,380
3. Other borrowings (3.1. + 3.2.)	2,139	2,139
3.1. Short-term borrowings	89	101
3.2. Long-term borrowings	2,050	2,038
4. Derivative financial liabilities and other financial liabilities held for trading	76	52
5. Issued debt securities (5.1. + 5.2.)	300	376
5.1. Short-term issued debt instruments	-	-
5.2. Long-term issued debt instruments	300	376
6. Issued subordinated instruments	1,663	1,277
7. Issued hybrid instruments	-	-
8. Interest, fees and other liabilities	996	1,112
B) TOTAL LIABILITIES (1.+2.+3.+4.+5.+6.+7.+8.)	**49,390**	**50,064**
EQUITY		
1. Share capital	3,500	3,500
2. Profit/(loss) of the current year	627	649
3. Retained profit/(loss)	2,285	2,693
4. Legal reserves	85	85
5. Statutory and other capital reserves	1	1
6. Unrealised profit/(loss) from value adjustment of financial assets available for sale	231	214
7. Reserves resulting from protective transactions	-	-
C) TOTAL EQUITY (1. To 7.)	**6,729**	**7,142**
D) TOTAL LIABILITIES AND EQUITY (B+C)	**56,119**	**57,206**
SUPPLEMENT TO STATEMENT OF FINANCIAL POSITION (filled out by banks that compose a consolidated financial report)		
1. TOTAL EQUITY		
2. Attributed to equity holders of the parent		
3. Non-controlling interest (1.-2.)		

Statement of changes in shareholders' equity

In HRK million								BANK 2017
	Share capital	Treasury shares	Legal, statutory and other reserves	Retained earnings/(loss)	Profit/(loss) for the period	Unrealised profit/(loss) from the basis of value adjustment of financial assets available for sale	Non-controlling interest	Total capital and reserves
1. Balance at 1 January	**3,500**	**-**	**85**	**2,285**	**627**	**232**	**-**	**6,729**
2. Changes in accounting policies and corrections of mistakes	-	-	-	-	-	-	-	-
3. Corrected balance as at 1 January (1+2)	**3,500**	**-**	**85**	**2,285**	**627**	**232**	**-**	**6,729**
4. Sale of financial assets available for sale	-	-	-	-	-	1	-	1
5. Change of fair value financial asset available for sale	-	-	-	-	-	(22)	-	(22)
6. Tax on items directly recognised or transferred from capital and reserves	-	-	-	-	-	4	-	4
7. Other profit/(loss) directly recognised in capital and reserves	-	-	-	-	-	-	-	-
8. Net profit/(loss) directly recognised in capital and reserves (4+5+6+7)	-	-	-	-	-	(17)	-	(17)
9. Profit/(loss) for the period	-	-	-	-	649	-	-	649
10. Total recognised income and expenses for the period (8+9)	-	-	-	-	649	(17)	-	632
11. Increase/(decrease) of share capital	-	-	-	-	-	-	-	-
12. Buy/sell of treasury shares	-	-	-	-	-	-	-	-
13. Other changes		-	1	-	-	(1)	-	-
14. Transfer to reserves	-	-	-	627	(627)	-	-	-
15. Dividends paid	-	-	-	(219)	-	-	-	(219)
16. Distribution on income (14+15)	-	-	-	408	(627)	-	-	(219)
17. Balance at reporting date (3+10+11+12+13+16)	**3,500**	**-**	**86**	**2,693**	**649**	**214**	**-**	**7,142**

Statement of changes in shareholders' equity

BANK

In HRK million								2016
	Share capital	Treasury shares	Legal, statutory and other reserves	Retained earnings/(loss)	Profit/(loss) for the period	Unrealised profit/(loss) from the basis of value adjustment of financial assets available for sale	Non-controlling interest	Total capital and reserves
1. Balance at 1 January	**3,500**	**-**	**85**	**3,297**	**(1,012)**	**266**	**-**	**6,136**
2. Changes in accounting policies and corrections of mistakes	-	-	-	-	-	-	-	-
3. Corrected balance as at 1 January (1+2)	**3,500**	**-**	**85**	**3,297**	**(1,012)**	**266**	**-**	**6,136**
4. Sale of financial assets available for sale	-	-	-	-	-	(50)	-	(50)
5. Change of fair value financial asset available for sale	-	-	-	-	-	-	-	-
6. Tax on items directly recognised or transferred from capital and reserves	-	-	-	-	-	16	-	16
7. Other profit/(loss) directly recognised in capital and reserves	-	-	-	-	-	-	-	-
8. Net profit/(loss) directly recognised in capital and reserves (4+5+6+7)	-	-	-	-	-	(34)	-	(34)
9. Profit/(loss) for the period	-	-	-	-	627	-	-	627
10. Total recognised income and expenses for the period (8+9)	-	-	-	-	627	(34)	-	593
11. Increase/(decrease) of share capital	-	-	-	-	-	-	-	-
12. Buy/sell of treasury shares	-	-	-	-	-	-	-	-
13. Other changes	-	-	-	-	-	-	-	-
14. Transfer to reserves	-	-	-	(1,012)	1,012	-	-	-
15. Dividends paid	-	-	-	-	-	-	-	-
16. Distribution on income (14+15)	-	-	-	(1,012)	1,012	-	-	-
17. Balance at reporting date (3+10+11+12+13+16)	**3,500**	**-**	**85**	**2,285**	**627**	**232**	**-**	**6,729**

Cash flow statement

In HRK million	BANK 2016	2017
OPERATING ACTIVITIES		
1.1. Profit/(loss) before income tax	831	811
1.2. Allowances and loss provisions	(966)	486
1.3. Depreciation	42	58
1.4. Net unrealized profit/(loss) from financial assets and liabilities through profit or loss	-	-
1.5. Profit/(loss) from sale of tangible assets	(55)	(58)
1.6. Other profit/(losses)	-	-
1. Cash flow from operating activities before changes of operating asset (1.1. to 1.6.)	**(148)**	**1,297**
2.1. Deposits with Central bank	788	(192)
2.2. Treasury bills of Ministry of Finance and bills of exchange with CB	38	150
2.3. Deposits with banks and loans to financial institutions	(1,256)	669
2.4. Loans to other customers	3,669	(591)
2.5. Securities and other financial instruments held for trading	130	(195)
2.6. Securities and other financial instruments available for sale	(844)	(232)
2.7. Securities and other financial instruments not held for trading, measured at fair value through profit or loss	-	-
2.8. Other operating assets	(69)	86
2. Net increase/(decrease) of operating assets (2.1. to 2.8.)	**2,456**	**(305)**
3.1. Demand deposits	2,225	4,192
3.2. Savings and term deposits	(4,389)	(2,404)
3.3. Financial derivative liabilities and other liabilities held for trading	(27)	(25)
3.4. Other liabilities	(980)	(11)
3. Net increase/(decrease) of operating liabilities (3.1. to 3.4.)	**(3,171)**	**1,752**
4. Net cash flow from operating activities before income tax (1+2+3)	**(863)**	**2,744**
5. (Income tax paid)	**-**	**(20)**
6. Net inflow/(outflow) of cash from operating activities (4-5)	**(863)**	**2,724**
INVESTING ACTIVITIES		
7.1. Receipt from sale/(payment for buying) tangible and intangible assets	(46)	(20)
7.2. Receipt from sale/(payment for buying) investments in subsidiaries, associates and joint ventures	(40)	(29)
7.3. Receipt from sale/(payment for buying) securities and other financial instruments held to maturity	(260)	(264)
7.4. Dividend income	-	-
7.5. Other receipts/(payments) from investing activities	-	-
7. Net cash flow from investing activities (7.1. to 7.5.)	**(346)**	**(313)**
FINANCIAL ACTIVITIES		
8.1. Net increase/(decrease) of borrowings	(322)	(896)
8.2. Net increase/(decrease) issued debt securities	-	76
8.3. Net increase/(decrease) subordinated and hybrid instruments	(17)	(385)
8.4. Receipts from transmitted share capital	-	-
8.5. (Dividends paid)	-	(219)
8.6. Other receipts/(payments) from financial activities	-	-
8. Net cash flow from financial activities (8.1. to 8.6.)	**(339)**	**(1,424)**
9. Net increase/(decrease) of cash and cash equivalents (6+7+8)	(1,548)	987
10. Effects of change in foreign exchange rates on cash and cash equivalents	-	
11. Net increase/(decrease) cash and cash equivalents (9+10)	**(1,548)**	**987**
12. Cash and cash equivalents at the beginning of the year	**5,435**	**3,887**
13. Cash and cash equivalents at the end of the year	**3,887**	**4,874**

Off balance sheet items

	BANK 2016	2017
1. Guarantees	1,994	2,434
2. Letters of credit	140	136
3. Bills of exchange	-	-
4. Undrawn loans and loan commitments	3,502	3,440
5. Other risk off balance items	128	38
6. Futures	-	-
7. Options	15	3
8. Swaps	14,307	12,896
9. Forwards	7,179	8,900
10. Other derivatives	-	-

Appendix 2 – Differences between financial statements according to IFRS and local requirements

Year ended 31 December 2017

						GROUP
ANNUAL REPORT (AR)	**in HRK million**	**Form Income statement (CNB)**	**in HRK million**	**Diff.**		**EXPLANATION**
Net interest income	2,071	Net interest income	2,071	-	-	
Net fee and commission income	715	Net fee and commission income	715	-	-	
Net trading and fair value result	199	Net trading result Foreign exchange gains/losses	37 162	-	-	
Personnel expenses Other administrative expenses Depreciation and amortisation	(668) (644) (228)	General administrative expenses and amortisation	(1,595)	55	52 11 (8)	AR - Other operating result CNB - Other income CNB - Other expenses
Gains/losses on financial assets and liabilities not measured at fair value through profit or loss, net Rental income from investment properties & other operating lease Other operating result	5 147 (102)	Results of financial assets available for sale Results of financial assets held to maturity Other income Other expenses	5 - 490 (290)	(155)	(52) (3) (100)	CNB - General administrative expenses and amortisation AR - Other administrative expenses CNB - Expense of value adjustment and loss provisions
Dividend income Net result from equity method investments	1 10	Income of investment in associates	11	-	-	
Net impairment loss on financial assets not measured at fair value through profit or loss	(866)	Expense of value adjustment and loss provisions	(966)	100	100	AR - Other operating result
Pre-tax profit from continuing operations	**640**	**PRE-TAX PROFIT**	**640**	-	-	
Taxes on income	(183)	Taxes on income	(183)	-	-	
NET PROFIT OF THE YEAR	**457**	**NET PROFIT FOR THE PERIOD**	**457**	-	-	

GROUP

Annual report (AR)	in HRK million	Form Statement of financial position (CNB)	in HRK million	Diff.		Explanation
Cash and cash balances	4,639	Cash and deposits with central bank Deposits with banking institutions	7,549 858	(3,768)	(3,768)	AR - Loans to and receivables from credit institutions
Derivatives	52	Derivative financial assets	52	-	-	
Other trading assets	195	Securities and other financial instruments held for trading	195	-	-	
Financial assets designated at fair value through profit or loss	-		-	-	-	
Loans to and receivables from credit institutions	5,233	Loans to financial institutions	2,235	2,998	(774) 4 3,322 446	AR - Loans to and receivables from customers CNB - Interest, fees and other assets CNB - Cash and deposits with central bank CNB - Deposits with banking institutions
Loans to and receivables from customers	43,297	Loans to other customers	41,986	1,311	774 537	AR - Loans to and receivables from credit institutions CNB - Interest, fees and other assets
Financial assets - available for sale	8,018	Treasury bills with ministry of finance and bills of exchange with CNB Securities and other financial instruments available for sale	301 7,936	(219)	(301) 82	AR - Financial assets - held to maturity CNB - Interest, fees and other assets
Financial assets - held to maturity	1,878	Securities and other financial instruments held to maturity	1,533	345	44 301	CNB - Interest, fees and other assets CNB - Treasury bills with ministry of finance and bills of exchange with central bank
Investments in subsidiaries, joint ventures and associates	60	Investments in associates, subsidiaries and joint ventures	62	(2)	(2)	AR – Other assets
Property, plant and equipment	1,262	Tangible asset (minus depreciation)	1,315	(53)	(53)	AR - Investment properties
Intangible assets	393			393	393	CNB - Interest, fees and other assets
Investment properties	53			53	53	CNB - Tangible asset (minus depreciation)
Tax assets	251			251	251	CNB - Interest, fees and other assets
Other assets	594	Interest, fees and other assets Repossessed assets	1,440 463	(1,309)	(1,311) 2	AR - Interest on loans, deposits, securities and derivatives CNB - Investments in associates, subsidiaries and joint ventures
TOTAL ASSETS	**65,925**	**TOTAL ASSETS**	**65,925**	**-**	**-**	

Appendix 2 – Differences between financial statements according to IFRS and local requirements
Year ended 31 December 2017

						GROUP
Annual report (AR)	**in HRK million**	**Form Statement of financial position (CNB)**	**in HRK million**	**Diff.**		**Explanation**
Deposits from banks	11,025	Borrowings from financial institutions	6,051	4,974	(157) 1,277 3,832 22	AR - Deposits from customers CNB - issued subordinated instruments CNB – Deposits CNB - Interest, fees and other liabilities
Derivatives	52	Derivative financial liabilities and other financial liabilities held for trading	52	-	-	
Financial liabilities designated at fair value through profit or loss	-		-	-	-	
Deposits from customers Other financial liabilities	44,374 857	Deposits Other borrowings	45,649 2,313	(2,731)	944 157 (3,832)	CNB - Interest, fees and other liabilities CNB - Borrowings from financial institutions AR - Deposits from banks
Debt securities issued	376	Issued debt securities Issued subordinated instruments	376 1,277	(1,277)	(1,277)	AR - Deposits from banks
Tax liabilities	141		-	141	141	CNB - Interest, fees and other liabilities
Provisions	267		-	267	267	CNB - Interest, fees and other liabilities
Other Liabilities	627	Interest, fees and other liabilities	2,001	(1,374)	(1,107) (267)	AR - Interest on borrowed funds, amounts due to customers and banks and payables on financial derivative AR - Provisions
Total equity	8,050	Total equity	8,206	(156)	(156)	AR - Non-controlling interest
Non-controlling interest	156		-	156	156	CNB - Total equity
TOTAL LIABILITIES AND EQUITY	**65,925**	**TOTAL LIABILITIES AND EQUITY**	**65,925**	**-**	**-**	

Appendix 2 – Differences between financial statements according to IFRS and local requirements
Year ended 31 December 2017

BANK

ANNUAL REPORT (AR)	**in HRK million**	**Form Income statement (CNB)**	**in HRK million**	**Diff.**		**EXPLANATION**
Net interest income	1,656	Net interest income	1,656	-	-	
Net fee and commission income	445	Net fee and commission income	445	-	-	
Net trading and fair value result	202	Net trading result Foreign exchange gains/losses	36 166	- -	-	
Personnel expenses Other administrative expenses Depreciation and amortisation	(487) (467) (58)	General administrative expenses and amortisation	(1,066)	54	49 8 (3)	AR - Other operating result CNB - Other income CNB - Other expenses
Gains/losses on financial assets and liabilities not measured at fair value through profit or loss, net Rental income from investment properties & other operating lease Other operating result	3 2 (70)	Results of financial assets available for sale Results of financial assets held to maturity Other income Other expenses	3 - 185 (139)	(114)	(49) (5) (60)	CNB - General administrative expenses and amortisation AR - Other administrative expenses CNB - Expense of value adjustment and loss provisions
Dividend income	25	Income of investment in associates	25	-	-	
Net impairment loss on financial assets not measured at fair value through profit or loss	(440)	Expense of value adjustment and loss provisions	(500)	60	60	AR - Other operating result
Pre-tax profit from continuing operations	**811**	**PRE-TAX PROFIT**	**811**	-	-	
Taxes on income	(162)	Taxes on income	(162)	-	-	
NET PROFIT OF THE YEAR	**649**	**NET PROFIT FOR THE PERIOD**	**649**	-	-	

Appendix 2 – Differences between financial statements according to IFRS and local requirements
Year ended 31 December 2017

						BANK
Annual report (AR)	**in HRK million**	**Form Statement of financial position (CNB)**	**in HRK million**	**Diff.**		**Explanation**
Cash and cash balances	4,170	Cash and deposits with CNB Deposits with banking institutions	7,210 633	(3,673)	(3,673)	AR - Loans to and receivables from credit institutions
Derivatives	55	Derivative financial assets	55	-	-	
Other trading assets	195	Securities and other financial instruments held for trading	195	-	-	
Financial assets designated at fair value through profit or loss	-		-	-	-	
Loans to and receivables from credit institutions	5,132	Loans to financial institutions	2,577	2,555	(1,119) 1 350 3,323	AR - Loans to and receivables from customers CNB - Interest, fees and other assets CNB - Cash and deposits with central bank CNB - Deposits with banking institutions
Loans to and receivables from customers	36,512	Loans to other customers	35,087	1,425	1,119 306	AR - Loans to and receivables from credit institutions CNB - Interest, fees and other assets
Financial assets - available for sale	7,468	Treasury bills with ministry of finance and bills of exchange with CNB Securities and other financial instruments available for sale	- 7,392	76	76	CNB - Interest, fees and other assets
Financial assets - held to maturity	1,391	Securities and other financial instruments held to maturity	1,364	27	27	CNB - Interest, fees and other assets
Investments in subsidiaries, joint ventures and associates	989	Investments in associates, subsidiaries and joint ventures	989	-	-	
Property, plant and equipment	583	Tangible asset (minus depreciation)	603	(20)	(20)	AR - Investment properties
Intangible assets	111		-	111	111	CNB - Interest, fees and other assets
Investment properties	20		-	20	20	CNB - Tangible asset (minus depreciation)
Tax assets	88		-	88	88	CNB - Interest, fees and other assets
Other assets	492	Interest, fees and other assets Repossessed assets	648 453	(609)	(609)	AR - Interest on loans, deposits, securities and derivatives
TOTAL ASSETS	**57,206**	**TOTAL ASSETS**	**57,206**	**-**	**-**	

Appendix 2 – Differences between financial statements according to IFRS and local requirements

Year ended 31 December 2017

						BANK
Annual report (AR)	**in HRK million**	**Form Statement of financial position (CNB)**	**in HRK million**	**Diff.**		**Explanation**
Deposits from banks	6,394	Borrowings from financial institutions	1,327	5,067	(157) 1,277 3,937 10	AR - Deposits from customers CNB - Issued subordinated instruments CNB – Deposits CNB - Interest, fees and other liabilities
Derivatives	52	Derivative financial liabilities and other financial liabilities held for trading	52	-	-	
Financial liabilities designated at fair value through profit or loss	-		-	-	-	
Deposits from customers Other financial liabilities	42,307 158	Deposits Other borrowings	43,781 2,139	(3,455)	325 157 (3,937)	CNB - Interest, fees and other liabilities CNB - Borrowings from financial institutions AR - Deposits from banks
Debt securities issued	376	Issued debt securities Issued subordinated instruments	376 1,277	(1,277)	(1,277)	AR - Deposits from banks
Tax liabilities	132		-	132	132	CNB - Interest, fees and other liabilities
Provisions	212		-	212	212	CNB - Interest, fees and other liabilities
Other Liabilities	433	Interest, fees and other liabilities	1,112	(679)	(335) (212) (132)	AR - Interest on borrowed funds, amounts due to customers and banks and payables on financial derivative AR – Provisions AR – Tax liabilities
Total equity	7,142	Total equity	7,142	-	-	
TOTAL LIABILITIES AND EQUITY	**57,206**	**TOTAL LIABILITIES AND EQUITY**	**57,206**	**-**	**-**	